DOCUMENTS EXPEDITING PROJECT

[COMMITTEE PRINT]

LONG RANGE FARM PROGRAM

TECHNICAL STUDIES BY THE UNITED STATES DEPARTMENT OF AGRICULTURE RELATING TO SELECTED FARM PRICE SUPPORT PROPOSALS

FOR THE

COMMITTEE ON AGRICULTURE

OF THE

HOUSE OF REPRESENTATIVES

EIGHTY-THIRD CONGRESS

SECOND SESSION

UNITED STATES
GOVERNMENT PRINTING OFFICE
44366 WASHINGTON : 1954

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FOREWORD

Special work groups in the Department of Agriculture prepared a number of excellent studies on questions raised by this committee and by the National Agricultural Advisory Commission in the past several months.

In order that the entire committee might benefit from the information contained in these studies, I asked that they be made available to us for publication as a committee print.

They are presented herewith, together with an explanatory letter from the Under Secretary of Agriculture and an introductory note outlining the conditions under which the studies were made.

CLIFFORD R. HOPE,
Chairman, Committee on Agriculture.

MARCH 11, 1954.

LETTER OF TRANSMITTAL

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, March 9, 1954.

HON. CLIFFORD R. HOPE,
Chairman, Committee on Agriculture,
House of Representatives.

DEAR MR. HOPE: In response to your letter of January 2, 1954, we are transmitting for publication by the House Committee on Agriculture several technical studies relating to farm price-support policy which were prepared during the latter part of 1953 for the use of your committee and for that of the National Agricultural Advisory Commission. These documents were also considered by policy officials of the Department as one element in our review of price support programs.

It should be pointed out that these studies were prepared by work groups composed of specialists drawn from various agencies in the Department on the basis of their reputations for competence and objectivity in the areas under study. The problems for study were determined by the Advisory Commission, by yourself, and by policy officials of the Department; the technical people were called on for objective and factual analyses of the questions of concern to these policymaking bodies or officials.

We feel that these studies were very helpful in clarifying some major technical questions which arose during our review of price policy. None of them were written with the thought of publication. No attempt has been made to achieve a uniform style, and the individual studies remain for the most part in their original forms.

We are also transmitting a summary of the suggestions received from leaders in the agricultural colleges and others in response to requests made by Secretary Benson last spring. Many fine letters and statements were submitted to Secretary Benson, and these were summarized for use of the Advisory Commission and Department officials. They were a valuable source of ideas and judgments in the early stages of the Commission's work last summer.

We hope these studies will be useful to the committee in connection with its deliberations on price-support policy.

Sincerely yours,

TRUE D. MORSE, *Under Secretary.*

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LONG RANGE FARM PROGRAM

INTRODUCTORY NOTE

In reading the following studies, it is important to keep in mind the circumstances under which they originated and the purposes for which they were prepared.

In the first place, they were not conceived in terms of a broad treatise on price-support policy. Only the section entitled "Summary of Suggestions Received" even approaches a comprehensive survey of problems in this field. The remaining studies were directed at specific problems which appeared to be critical from the standpoint of legislative action in the coming year.

Even within this more restricted area, the studies presented here do not provide complete and uniform coverage. Except for the studies made for the chairman of the House Committee on Agriculture these studies may be viewed as a running conversation between the National Agricultural Advisory Commission and special Department work groups which acted as a technical staff for the Commission. At its June 29–July 1 meeting, the Commission recognized certain issues on which it was not adequately informed, and requested that the Department make technical studies of these particular issues prior to its next meeting. Most of the studies were done on not more than 4 weeks' notice to the specialists concerned. As a rule, the studies requested at one meeting were mailed out to members of the Commission a week or 10 days in advance of its next meeting.

At each successive meeting of the Commission, some issues were tentatively settled and new questions were raised. In some cases these involved more detailed study of particular aspects of an issue which had already been analyzed and discussed in board terms. Thus, the basic studies on multiple price plans and on "diverted acres" were followed by one or more special studies. The latest studies in the series were prepared in early December. A number of studies of highly specialized or transitory interest are omitted from the present compilation.

The Department of Agriculture studies printed here are divided into five major groups: Price support and storage policies for feed grains; problems created by acreage restrictions on basic crops; analysis of new price-support proposals for selected commodities; multiple price plans; and problems of underemployed rural people.

These studies were prepared by groups of commodity and other specialists from a number of Department agencies, each group specially constituted with reference to the particular questions at hand.

It should be reiterated that these statements do not represent official policy positions of the Department of Agriculture. They are intended as factual expositions and analyses and not as policy recommendations. Some of the more difficult and intensive analyses were

done on programs which, partly as a result of light thrown on them by these analyses, were rejected by the Commission as inadvisable. Other studies provided or strengthened some of the bases on which the Commission made positive program recommendations.

The technical studies represent only one of the many sources of judgment and appraisal which entered into the deliberations of the Advisory Commission. Most important, of course, was the wide experience of the members themselves. Recommendations of special commodity committees, producer groups and agricultural leaders were discussed carefully and at length.

SUMMARY OF SUGGESTIONS RECEIVED ON PRICE-SUPPORT POLICY

Judgments Requested From Agricultural Leaders

As one phase of the price policy review, Secretary Benson wrote letters to leaders in the State agricultural colleges and other institutions or organizations, requesting their suggestions on specific commodity or subject matter problems. Typically, the same letter was sent to 3 or 4 institutions in different parts of the country, so that experience and thinking in the various major producing areas would be represented. Thus, letters on wheat went to colleges in leading wheat States, letters on cotton to leading cotton States, and so on. Recipients of the letters were assured that their replies would be held in confidence. Altogether, about 60 letters were sent, covering 17 different topics.

In most cases the replies represented the work of committees rather than individuals. This was particularly true of replies from the State colleges, which generally drew upon both research and extension specialists in the fields concerned. In addition, the same letters were transmitted to work groups in the United States Department of Agriculture, made up of specialists chosen on the basis of their technical competence and knowledge rather than as agency representatives. The work group replies were submitted directly to the Under Secretary.

The task of summarizing all of the replies was assigned to work groups in the Department. Each work group was asked to prepare its summary in such a way that the sources of individual suggestions would not be identified, and the ideas would stand on their own feet.

The diversity of styles in these summaries in part reflects the relative independence of the different work groups. However, on certain topics, such as price insurance, problems of underemployed rural people, and expansion of industrial uses, the replies were almost unanimous in terms of the major points mentioned and the positions taken with respect to them. This near unanimity is reflected in the organization of these summaries. On other topics there were wider gradations of opinion, and these are duly noted.

The summaries were prepared in June 1953 and proved highly useful in focusing the earlier discussions of the National Agricultural Advisory Commission. They provided a check list of important problems as well as a digest of informed judgments concerning them.

AGRICULTURAL ACTS OF 1948 AND 1949

This was perhaps the broadest single topic on which judgments were requested. Five groups were asked for their judgments on the major provisions of these acts. Their suggestions are grouped under seven headings.

1. *Parity price.*—All five groups reporting recommended discontinuance of the use of old parity for basic commodities. One group

suggested use of transitional parity in converting basics from the old to the new basis beginning January 1, 1956. Another suggested need for more flexible parity prices than new parity to reflect structural changes possibly by (*a*) using a shorter base period than 10 years, (*b*) getting away from the 1910–14 period, and (*c*) converting the parity price index into parity cost indexes. A third group suggested a new calculation of parity as that "price which would obtain when none of the factors which tend to affect the farmer in a pecualiarly adverse way, as compared with other producers, are operative"—recognizing that the calculation of such a parity standard technically may not be possible.

2. *Mandatory price support.*—One group recommended that mandatory support be limited to commodities for which regulation of marketing is possible and marketing quotas are authorized by law. Addition of other commodities would be contingent upon passage by Congress of authority for marketing regulations and/or other measures necessary to a sound price-support program. Another recommended that mandatory support be limited to cotton, wheat, corn, tobacco, and dairy products. A third generally endorsed the provisions of the Agricultural Act of 1948. Another group recommended that the term "basic" be replaced by "storable" and that the mandatory commodities included be selected primarily on the basis of their storability. Still another suggested that the present discrimination between basics and nonbasics be eliminated because of its inequity and possible distortion of resource use, and that differences in the treatment of commodities cannot properly be justified, as at present, largely on the basis of storability and perishability.

3. *Level of mandatory support.*—One group recommended that the minimum level of price support should be 90 percent of parity when supplies are no more than slightly above normal and should approach 75 percent of parity as supplies approach the marketing quota level. No support should be provided when producers disapprove marketing quotas. A second likewise recommended flexible support but believed that the range should be 60 to 90 percent of parity with the provisions similar to those in the Agricultural Act of 1948. Another group recommended flexible support at a minimum level of from 70 to 75 percent of parity "if it were necessary to yield that much"; it emphasized that 75 percent of old parity for wheat would result in a chronic surplus problem.

A fourth group recommended continuation of 75–90-percent flexible rates with these modifications: (*a*) A sliding scale of around half the 75–90-percent range should be used for corn with provisions for a larger decrease whenever supplies exceed 4 billion bushels, and (*b*) additional arrangements should be made to prevent loan rates on any commodity from dropping unduly due to a developing recession. A fifth group did not recommend specific levels but stated that there is no great merit in flexibility as to level; it stated that the support technique, rather than the level, should be flexible, and that firm across-the-board supports are a desirable protection to the farmer under depression conditions.

4. *Additional methods of support.*—One group recommended that producer payments be authorized as a method of support for (*a*) mandatory commodities for which storage at a reasonable cost for a relatively long period is not practical, and (*b*) the nonmandatory

commodities. Another recommended that payments be authorized as an additional method of support for any commodity. A third endorsed the provisions of the Agricultural Act of 1948 providing for payments. Another group recommended that perishables be supported only by payments—or by subsidies to processors—but that authority be provided for use of payments on any commodity. The fifth suggested that production payments (or price insurance) should be viewed largely as a device for keeping the Government from overloading itself with perishable commodities. It recommended that the principle of carrying sizable (meaning generous) stockpiles of all storable commodities be adopted. It pointed out that when any support operation promised either to increase CCC's holdings of "unusable stocks" or to damage domestic or export outlets, the Secretary could substitute other means of sustaining producer income, the most obvious of which is by direct payments.

5. *Disposal.*—One group recommended certain changes in the interest of more effective and efficient operations, through stock rotation, etc., plus broadening donation authority to permit payment of transportation. Another recognized the need for more workable provisions for surplus disposal, but without specific recommendation. A third emphasized that domestic outlets should be broadened, either by gift or on special terms, and that steps should be taken to place excess stocks "at the disposal of other countries of the free world at terms they can meet." Such a policy should be complementary to one of sustaining normal exports by pursuing liberal trade policies; it warned against placing too much reliance on two-price policies.

6. *Acreage allotments and marketing quotas.*—One group made specific recommendations on marketing quotas. It suggested that the legislation be rewritten; that the carryover allowance in the definition of normal supply be brought up to date; that increases in the carryover allowances for corn and wheat be made; that the supply level for marketing quota proclamations be reviewed to provide a uniform level for all commodities; that the national marketing quota be the amount necessary to make available a normal supply; that the past 5 years with adjustments for trends and abnormal weather conditions be the base period for State and county allotments and normal yields for all commodities; that the penalty provisions be revised to provide a rate for each commodity equal to 50 percent of the parity price; that provision be made for collection of interest on unpaid penalties for all commodities; that language be added to the marketing quota legislation broad enough to be applied to any commodity for which marketing quotas would be administratively practicable.

Another group recommended that acreage allotments be discontinued, suggesting as alternatives (*a*) direct payments if production is too high due to a temporary recession in demand, and (*b*) reducing the support level if production is too high for more permanent reasons, and possibly (*c*) some form of compensation to cover costs of shifting to other crops for high-cost producers who do not have ready production alternatives.

A fifth group suggested a liberalization of the mandatory requirements for allotments and marketing quotas, with permissible levels of carryovers substantially higher.

7. *Self-financing programs.*—One group suggested that price support be made self-financing by collections from farmers when prices are

above support. Another suggested that direct payments to producers "in times of distress might conceivably be coupled to the collection of a premium in good times."

WHEAT

1. *General policy objectives.*—Two groups agreed on general objectives of agricultural policy as promoting the efficient use of production resources; assuring agricultural producers equality of economic opportunity; involving a minimum of Government participation; and calling for maximum initiative of private enterprise. One group adds as objectives the minimizing of income instability resulting from conditions beyond the control of producers and the contributing to international political stability and world peace.

2. *Existing legislation.*—Two groups are opposed to existing legislation on the grounds that it does not meet these general objectives. One of these emphasizes that there is grave doubt whether central authority could ever possess the necessary knowledge required to allocate agricultural resources in an efficient manner. Another group endorses present legislation, but recommends some changes which would increase returns to wheat producers by larger expenditure of public funds.

3. *Production, marketing, and price policies.*—(*a*) One group recommends, under conditions of relative economic stability and assured outlets, free market prices as the most desirable method of adjusting production, consumption, and prices, but stresses the need for improving the effectiveness of the price mechanism in performing these tasks.

(*b*) Another recommends 90 percent of parity price support for 3 years beginning July 1954, then gradual adjustment; direct purchases to make loan programs more effective in the market; bonus payments to producers for desired land-use adjustments to compensate for income reductions under allotment programs; and the establishment of a clearinghouse for buying and selling acreage allotments (e. g., producers in dairy and livestock regions might shift more acres than allotments call for and sell allotments to farmers in areas where wheat growing is specialized).

(*c*) One group recommends a multiple-price system as the most effective method of implementing production, marketing, and price policies for wheat consistent with the overall policy objectives. The plan recommended is designed to—

(1) Assure parity prices to wheat producers for the portion of the crop sold for domestic human consumption;

(2) market wheat for export and nonfood uses without price protection; and

(3) effect separation of the domestic market for food from foreign markets and nonfood uses by marketing certificates compensating producers for the difference between market prices and parity for wheat consumed domestically as food.

Under such a program wheat prices would be free to fluctuate in the open market, no Government subsidies would be required, and the expenditure of public funds would be limited to covering the administrative cost of the program. Since free-market prices cannot be depended upon to effect desirable shifts as between different crops and land uses, effective producer organization must be developed to keep

production adjusted to market outlets. Such organization is recommended to be accomplished through marketing agreements under which the Government may lend assistance to producer groups. Another group also refers to the weakness of free-market prices as instruments of adjustment and the necessity for making the price mechanism more effective, without recommending specific measures to that end.

(*d*) If flexible-price supports are to be used for wheat, one group recommends substantial modifications in the Agricultural Act of 1949 to insure that the incentives to production reflect the needs of the market. Purchase agreements should be employed in preference to nonrecourse loans to encourage producers to assume greater responsibilities in conditioning, storing, and marketing wheat. Since producer-stored wheat under Government purchase agreements is sound collateral for loans, private business may perform the credit services which under loans are assumed by the Government. One group outlines essential features of a sound program of flexible-price supports without, however, recommending such a program.

4. *Export policies.*—(*a*) Under the multiple-price system recommended by one group exports would be made at free-market prices. However, this group emphasizes that the volume of United States wheat exports would have to be determined on the basis of international cooperation rather than competition to maintain reasonable price stability. Also, controls over production or marketing, self-imposed by producers, may be required to prevent the benefits accruing to producers from the protected domestic market from being dissipated.

(*b*) Another group also recommends free-market prices as the determinant of United States exports, provided that foreign market outlets are assured under the International Wheat Agreement. Further, some Government stockpile of wheat, to be maintained at minimum Government cost and participation, is recommended for emergencies and to assure our export commitments.

(*c*) One group recommends substantial expansion of our wheat exports to eliminate production controls, with the cost of the program to be borne by the general taxpayer. Expansion of export outlets is to be effected by reducing international trade barriers in general and by extensive foreign relief activities.

COTTON

1. *Price supports.*—All groups commenting on price supports recognized a need for a level below 90 percent of parity. Two recommend a sliding scale similar to the present law, one of which included in addition a two-price plan if supplies get burdensome. One suggests flexible supports and crop insurance in order to lessen price and yield uncertainties to farmers. One recommends a reduction of the support level to about 80 percent of parity over a period of 5 years.

2. *Acquisition and disposal of Government-controlled stocks.*—Four out of five groups would have the Government acquire stocks as a means of supporting prices. Regarding disposal of stocks: One would set aside 2 to 3 million bales of Government stocks to be sold only in case of war. Government stocks in excess of this military stockpile should be sold when the actual supply is under normal supply. For

such excess stocks sold abroad, currencies of the buying countries should be accepted instead of dollars and used to pay for strategic materials and services. Another suggests a pricing program that would prevent the excessive accumulation of stocks. Another would dispose of Government stocks at 110 percent of the prevailing support price. Another would build a reserve stock of 9 to 10 million bales, at least until conditions become more settled. Apparently most of these stocks would be carried by private trade. Part of these stocks would be stored abroad and insurance and low-cost credit made available to importers.

3. *Acreage allotments and marketing quotas.*—Two groups recommend acreage allotments and marketing quotas to prevent accumulation of excessive stocks. Another makes no specific proposals for allotments or quotas. One would apply acreage controls in accordance with the present law. Another recommends that allotments and quotas be applied when the carryover exceeds 40 percent of estimated disappearance in the following year. Another recommends a quota system for production for domestic consumption with growers permitted to produce nonquota cotton for export at world prices if they choose. One emphasized the need for more stability of production under quotas. All groups recognized the need for programs that permit and encourage the shift of production to the more efficient farms.

4. *Foreign trade.*—All groups recognize the desirability of maintaining and increasing exports. One recommends export incentives, equivalent to the difference between prevailing support prices and 80 percent of parity, to be gradually reduced and discontinued at the end of 5 years. Another cautions against price supports that would prevent American cotton from meeting competition in export markets. Another would prohibit restrictions on exports of all grades and would prohibit imports of competing types of cotton and byproducts when acreage controls were in effect. One recommends a two-price system similar to that in the domestic allotment plan and cautions that other fibers may be substituted for cotton if cotton prices are supported at unduly high levels. Another recommends a sound foreign trade policy and economic development in foreign countries.

5. *Research, education, and development.*—Most groups recommend expanded research, education, and development to increase consumption and improve production efficiency.

TOBACCO

1. In its essentials, the present Government program (acreage allotments, marketing quotas, and price supports) should be continued.

2. With respect to price supports, the views separately held were:

(*a*) A continuation of the present price support appears justified. (Though not currently apparent, flexibility in the price-support level may be needed some time in the future.)

(*b*) Support at a fixed percentage of parity is justified when growers effectively maintain supplies in line with demand.

(*c*) The only workable alternative to the present program of high support prices for tobacco would seem to be the gradual lowering of the level to long-run competitive levels. With a lowering of farm income from tobacco, a collateral program to improve know-how and increase the availability of capital for other farm enterprises probably

would be necessary. Some continuation of "stop loss" minimum supports would seem to be desirable in view of export uncertainties and possible business recessions.

(*d*) One group recommended that supports for the fire-cured and dark air-cured types should be related to their own parities rather than tied to a fixed percentage of the burley support.

3. With respect to allotments and quotas, divergent views were expressed:

(*a*) Consideration should be given to changing to poundage rather than acreage as a basis for individual farm allotments.

(*b*) The possible advantages of poundage quotas in place of acreage allotments are greatly outweighed by the disadvantages and such a change is not recommended.

4. One source suggested that arrangements be considered under which tobacco price-support operations would provide for payment into loss-reserve funds of not more than 50 percent of direct net gains. This should be considered in connection with its general application to all storable commodities.

5. With respect to exports, one group recommends that, in view of the present downward trend in exports, stronger Government efforts be made toward eliminating and/or diminishing restrictive influences or measures affecting consumption of United States tobacco abroad. This group regards the application of a two-price system or an international agreement to tobacco as questionable but believes more exhaustive consideration is required.

Another group stated that though the present price-support program may lessen somewhat the opportunity for expanding exports of burley tobacco, the success of the program in its domestic aspects, outweighs—at present—the limiting effects on exports. However, this group mentions the need for continued emphasis on increasing burley exports.

6. One group recommends that the Department of Agriculture be more active in promoting industrialization of the South and the mobility of surplus farm population to nonagricultural employment in other regions.

7. One group recommended that the Department: (1) Press for further antitrust action, (2) resist further increases in cigarette taxes, and (3) support a graduated or preferably an ad valorem cigarette tax.

OILSEEDS AND PEANUTS

1. One group recommends that permissive price-support legislation be continued for oilseeds and that price support for soybeans, flaxseed, and peanuts be mandatory when acreage allotments and marketing quotas are in effect.

2. One group suggests that there be no price-support program for cottonseed, tung (now mandatory) or olive oil but that price support be continued for soybeans and flaxseed at reduced levels approximating 75–80 percent of parity for soybeans and 60–65 percent of parity for flaxseed (assuming no marketing quotas) and that a flexible price support program for peanuts be continued unless producers have disapproved marketing quotas. Other suggestions on flaxseed are: (*a*) No price support, (*b*) support at the estimated world price, or (*c*) support for domestic requirements but open (world) market

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prices for surplus. One group suggests that tung oil be supported solely to the degree needed for national security. An alternative suggestion on cottonseed, flaxseed, and soybeans is that price floors be established. A suggested alternative on soybeans is a sliding scale of support varying inversely with the size of the crop. Another suggestion with respect to soybeans was that direct payments be made to farmers representing the difference between support price and market price.

3. One group recommended that peanut-marketing quota legislation be continued and legislation amended to permit marketing quotas and acreage allotments for flaxseed and soybeans. Another suggested that peanut legislation be amended to: (*a*) Permit the Secretary to establish acreage allotments sufficient to assure against shortages and reduce the necessity of Government carryover, (*b*) require the Secretary to support the price of peanuts on only the estimated proportion of acreage allotted that will be required for purposes other than crushing, assuming optimum yields, and that additional production be marketed through a designated agency at crushing values. (This would result in a domestic two-price system and reduced Government losses.) An alternative is that peanuts be grown for oil without any limitations. Another group suggests that peanut-marketing quotas be on a poundage basis with no acreage allotments and that the sliding scale of support prices be less than the estimated prices at which the market is expected to clear supplies.

4. One group recommends that parity prices for oilseeds, particularly tung and olives for crushing, be revised to more accurately reflect relative value, production costs, investment returns and other important relationships between oilseeds as well as other agricultural commodities.

5. One group suggests that a program of rotation of Government held oilstocks be initiated through commercial channels to maintain quality until final disposition.

6. One group recommends that import controls be continued for peanuts, tung, flaxseed, and linseed oil as a protection to producers, price-support programs, and Government holdings; also, that legislation (sec. 22 authority) be amended to permit protection of domestic industry against unreasonably low prices even though programs are not in effect, and to permit flexibility of operation.

DAIRY PRODUCTS

1. All sources reporting agree in suggesting that supports should be at a level which normally will clear the market under conditions of full employment and a stable price level.

2. A purchase and diversion program should be adequate for stabilizing and bring about orderly adjustments of production and demand under conditions of full employment.

3. Under conditions of severe depression or unforeseen accumulation of excessive supplies, subsidies, or income payments should be used to maintain returns to farmers without restricting consumption. (One source recommends reliance on subsidies or income payments as the method of support under all circumstances.)

4. One source suggests a self-help surplus holding pool as the mechanism for supporting prices; a form of two-price plan.

5. Price supports on feed grains should be reduced.

6. It is essential that some measure of import controls be continued on dairy products for an indefinite period. (Another source urges use of only such controls as are needed to offset State trading in international trade.)

7. Dairy products, particularly newer products and those emphasizing the solids-not-fat, should be promoted; the promotional campaigns being associated with price reductions.

8. The dairy industry is undergoing a major readjustment because of the lower demand for milk fat. A part of the solution lies in reducing per unit costs of production and marketing, increasing the size of dairy farms and partly or wholly shifting some farms now in dairying to other activities for which demand is growing.

9. Extend the Federal Filled Milk Act to apply not only to the products as they themselves cross State lines, but also as they affect related products in the channels of interstate commerce.

MARKETING AGREEMENTS AND ORDERS FOR MILK AND ITS PRODUCTS

1. Improvements in the Agricultural Marketing Agreements Act would clarify the authority for a number of provisions which may be necessary to make the pooling and pricing provisions of orders fully effective, but to initiate amendatory action involves a risk of undesirable amendments.

2. Improvements in the program that may be made administratively can come about on the basis of facts, opinions, and suggestions offered at public hearings. The program has been subject to constant and continuing improvement. As producers and handlers increase their understanding of the program, their proposals for amending orders and supporting evidence will improve with beneficial effects.

3. Marketing orders and agreements may be satisfactorily adapted to pricing and other problems in the marketing of milk for manufacturing purposes but proposals for such programs should originate with industry groups.

4. States and municipalities should be encouraged to assume responsibility for milkshed administration.

5. The United States Department of Agriculture and State Agricultural Experiment Stations should make unbiased studies to evaluate marketing orders.

6. Milk market orders should be limited to primary milk markets which normally carry a high level of surplus milk and where producers are especially vulnerable to price cutting.

7. Alternatives to marketing orders worthy of consideration are: (*a*) Increase the effectiveness of competition, especially reducing restrictions of health departments and labor unions; (*b*) encourage the function of price as a guide to producers in planning by extension, education, research, and crop and price reporting; and (*c*) more extensive cooperative marketing.

POULTRY PRODUCTS

1. There should be no rigid mandatory supports for prices of poultry products. Present legislation as it directly affects poultry products is satisfactory in this respect.

2. Action programs to directly influence poultry product prices should be limited to eggs and turkeys. Neither farm chickens, broilers, nor ducks, nor other specialities, should be the objects of purchase programs or other programs intended to directly affect prices.

3. The economic outlook and education program should be intensified in order to provide producers with essential facts at the time when they are making their production plans. Within its limitations, this will be much less expensive to the Government than action programs intended to directly affect prices.

4. When it becomes necessary to take direct steps to raise prices of either eggs or turkeys, purchases for nonprofit school-lunch programs and other eligible outlets are practical, to the limits of such outlets to effectively absorb surpluses. Relative to total production and the possible extent of surpluses, the outlets available for turkeys are substantial; for eggs they are small.

5. If the desired egg-price relationships cannot be established by actions in accord with points 3 and 4 above, the situation should be judged on the basis of how much income effects and price relief the Government might achieve at what costs (including expense to the Treasury), and consideration should be given to guaranteed storage programs for both shell and frozen eggs.

6. Export subsidies are not recommended except as a measure of extreme urgency.

MEAT ANIMALS

1. Price programs for meat animals have a place in reducing variability in prices and returns to producers.

2. Price programs for meat animals must be arrived at coordinately with price programs for feed. Price and reserve supply programs for feed will themselves give some stability to meat animals, especially when demand for meat is stable. When demand changes they temporarily accentuate price and income problems of meat animal producers, before achieving more price stability later.

3. Price assistance to meat animals in the form of guaranteed minimum or floor prices could serve two functions: (1) to temper the instability caused by changes in consumer demand; (2) to smooth out the cyclical fluctuations in meat animal production and price that are caused by the slow production responses in livestock. The price guaranty should be at a little less than the normal or average relation between meat animal and feed prices, in order to allow a wide area for the usual price-and-production adjustments.

4. Compensatory payments are recommended as the preferred method for any large-scale price assistance. Meat purchase is less desirable because outlets are strictly limited for any meat that would be acquired.

WOOL

1. If price assistance for wool is to be continued, a system of direct payments to producers is recommended as preferable to other systems. It would have the particular advantage of allowing domestic wool to sell competitively with man-made fiber at prices determined by market conditions, thereby tending to safeguard the domestic market for wool.

2. The decision as to continuing a wool price assistance program and the level of assistance revolves around the considerations of whether a price policy is to be established from the standpoint of strategic importance, or according to the most economical peacetime utilization of resources.

FRUITS, VEGETABLES, AND RELATED COMMODITIES

Suggestions include:

1. Avoidance of fixed levels of price support.

2. Flexible use of available funds, to the extent necessary and feasible in event of market distress, for limited purchases of market surpluses; for segregation and diversion of products from normal marketing channels or into export outlets, and for encouraging industry merchandising programs; the particular programs employed in each situation being selected in the light of the specific needs. Each proposal should be analyzed from the standpoint of the eight factors set forth in the Agricultural Act of 1949, and no purchases should be undertaken unless outlets are available.

3. For the annual crops, translation of economic outlook information into concrete acreage guides or recommendations, with the provision that no marketing assistance programs will be undertaken for such commodities in any area where producers substantially exceed the recommended acreages.

4. Use of authorized import controls where necessary to protect the operation of Department programs.

5. Use of marketing agreement and order programs to assist producers in the orderly marketing of farm products.

6. For perishables for which marketing agreements are not practicable a system of flexible price supports to offer protection against disaster. Such support price might best be administered through a system of compensatory payments.

Particularly to facilitate longer range adjustments in these industries, it is recommended that renewed emphasis be placed upon the following types of activities:

1. The search for additional sales outlets, including processed products, especially types of outlets that will absorb seasonal surpluses. Emphasis should be placed upon encouraging industries to take increased responsibility for dealing with seasonal surpluses as an inevitable characteristic of commercial fruit and vegetable production in the present state of technology.

2. Research and education that will help to hold down production and marketing costs and to improve the quality of products as they leave the farm and throughout the channels of distribution.

3. Economic information, market reports, grades, standards, inspection, and related services that will provide producers a better basis for making sound production and marketing decisions, and that will assist marketing firms and ultimate consumers in bringing about more efficient distribution and utilization of these crops.

MARKETING AGREEMENTS AND ORDERS FOR FRUITS, VEGETABLES, AND RELATED COMMODITIES

Continued use of marketing agreements and marketing orders is recommended in an effort to assist producers in marketing agricultural commodities. It is suggested that consideration be given to the following changes in the Agricultural Marketing Agreement Act of 1937:

1. Amend the statute to include additional commodities.
2. Amend the statute to authorize the use of marketing orders to promote marketing efficiency, especially the regulation of containers and types of pack.
3. Amend the statute to authorize agencies established under marketing agreements or marketing orders to engage in or finance research work from funds collected pursuant to such program.
4. Amend the statute to authorize the use of marketing orders for the sole purpose of collecting statistical and market information and the analysis, consolidation, and dissemination thereof.
5. Amend the statute to clarify the provision concerning producer exemption.
6. Amend the statute and authorize the use of marketing orders to specify beginning and ending dates for shipping seasons for agricultural commodities, including varieties thereof.
7. It is recommended that if the statute is to be amended in any important respect, the entire act should be rewritten.

PRICE INSURANCE

There was no direct disagreement among the sources commenting on price insurance. Most of them thought that "insurance" was a misnomer for the various plans which were transmitted for their consideration. The major comments and suggestions were as follows:

1. Price insurance is not an insurable hazard by usual insurance standards. If such a plan is undertaken, huge reserves would be needed to pay losses if low farm prices occur during the first years of operation. Provision for adequate reserves should be made in advance.
2. Price insurance alone is not an effective method of dealing with overproduction or surpluses. Some other plan will be needed in conjunction with a price insurance program.
3. Guarantee a moderate level of prices. A price guaranty of 90 percent or above of parity would require a premium rate so high that widespread participation in the program would be unlikely.
4. Provide some method of determining insured's premium and quantity eligible for insurance in advance. Basing these items on the insured's actual production would cause many administrative difficulties.
5. Contracts should be for long term, or producer must apply for insurance considerably in advance to lessen the chance for selectivity.
6. Experiment with the insurance plan on a few commodities to gain experience and eliminate bugs from the program.
7. All recommendations noted above assume that the price insurance program would be self-supporting. If the program is to be subsidized by the Government, it should be compared with a compensatory payment program rather than an insurance program.

TWO PRICE AND MULTIPLE PRICE PROGRAMS

1. These various opinions were expressed as to the feasibility of two-price export programs:

(*a*) Not desirable because administratively not feasible, public would not support program for any appreciable period of time, and would produce unfavorable relations with other countries.

(*b*) Won't materially reduce surpluses and we will run the risk of retaliation by foreign countries.

(*c*) There are possibilities for certain commodities where there are relatively few important exporters and many importers, as in the cases of wheat, cotton, rice, and soybeans; but international repercussions are likely to result unless there is some form of international agreement.

(*d*) Some form of two-price arrangement could help maintain adequate exports of certain commodities while maintaining higher prices in domestic markets than in foreign markets. However, the profitable use of two-price arrangements for export crops is probably limited to a few commodities for which foreign demand responds sufficiently to price reductions to make such a system advantageous to American farmers. Careful study should be given to the possibilities and limitations of using a self-financing two-price plan to mitigate foreign trade problems. A decision as to whether a two-price plan would result in an improvement depends upon what alternative might be in effect or under consideration. It would have to be decided on a commodity-by-commodity basis.

2. Different opinions were expressed as to the desirability of a domestic two-price plan in the form of a stamp plan or food allotment program. One group suggested that the Department should seek authority to try this operation out on a small scale. Another group felt that such a plan was not likely to succeed at the present time.

3. One group pointed to the possibility of using a two-price plan on imported commodities, such as wool.

4. One group suggested that authority should be continued to dispose of surpluses below cost abroad and in noncompetitive domestic markets.

FOREIGN TRADE

1. *Price support policies should be changed for commodities where there is need to make our prices more competitive.*—Three alternative approaches should be considered, namely:

(*a*) Flexible supports, i. e., supports allowing downward adjustments of the support level of a surplus commodity in order to (1) encourage production shifts, (2) facilitate exports, and/or (3) reduce the import-attracting effect of price support.

(*b*) Self-financing international two-price systems, i. e., systems raising prices to domestic consumers above world prices through a processing or sales tax and distributing funds so accumulated among domestic producers, or through limitations on sales in the United States by means of "domestic marketing certificates." (Some proponents would also limit exports by means of export certificates.)

(1) For export commodities: A two-price system would assure producers an average return somewhere between fair domestic and competitive export prices; and it would be a sharp instrument

of competition in export markets. It would meet with objections and might cause some other exporting countries to answer with price-cutting measures for their products; and some importing countries to answer with antidumping duties. Some proponents would place a higher floor below the domestic and a lower floor below the export price. Commodity agreements might reduce or eliminate adverse international repercussions for some commodities.

(2) For import commodities: Producers' per unit returns would be raised above market prices by a greater amount than the tax (e. g., three times the tax rate if two-thirds of domestic consumption is imported). It is permissive under the General Agreement on Tariffs and Trade.

(*c*) Selective export payments out of tariff (or general) revenues, such as are made at present under section 32. Selective payments would be more effective and economical than across-the-board export subsidization, such as provided for by export debenture or duty refund plans.

Flexible supports will be effective where opportunities for production shifts are substantial. Two-price systems will be most effective for import commodities. For an export commodity they will be more effective than flexible supports if a commodity has suffered heavy losses of export markets and if prospects are good for regaining such markets by competitive pricing. Export payments should be confined to commodities and areas where, and periods when, there is need to offset special factors impeding equitable competition of our farm products. They should be continued until currencies have become freely convertible throughout the major part of the free world.

Some proponents suggested that producer payments would have the advantage, as compared with price supports, of interfering less directly with international trade as well as with trade in general. They stress further that it would be important not to set too high a level for such payments.

Others again expressed preference for fixed 90 percent supports, even though this might necessitate production and marketing restrictions.

2. *United States foreign economic policies in general.*—Since changes in price-support policies cannot alone offset odds now encountered by United States farm products in international trade (such as tendencies toward protectionism and preferences for soft-currency products), United States foreign economic policies must be enlisted to help agricultural exports by such means as:

(*a*) Facilitating increased foreign dollar earnings through expanded offshore procurement for defense, customs simplification, and expansive trade policies;

(*b*) Promotion of economic development and private foreign investments, assuring investors protection of their capital and transfer of the income earned;

(*c*) Export-Import Bank financing; and

(*d*) Determined efforts to secure early relaxation and ultimate elimination of restrictive and discriminatory foreign controls against United States products.

INDUSTRIAL USES AND MARKET DEVELOPMENT

I. Both sources reporting recommended increased emphasis on all or most of the following lines of utilization research:

1. *Cotton and wool.*—Improvement of specific qualities by chemical treatments; lowering manufacturing costs by improvement of processing techniques; and development of new fabrics for specific end uses.

2. *Wheat and corn.*—Improvement for use as feeds through fermentation and chemical treatment; development of new industrial uses for the components such as starch and protein; and prevention of deterioration prior to industrial use.

3. *Oilseeds and animal fats.*—Development of suitable modifications of these products for use in detergents, plastics, paints, and edible food coatings.

4. *Poultry and animal products.*—Development of economically sound methods for converting byproducts such as hides, viscera, heads, feet, and blood into useful products; and improvement of product quality.

5. *Fruits and vegetables.*—Reduction to stable forms such as powders and concentrates of excellent quality and convenient in preparation for use that can be stored and transported economically and released in accord with demand.

6. *Dairy products.*—Conversion of milk to a stable form that can easily be reconstituted as a beverage; and development of new uses for byproducts and wastes of the milk-processing industry.

7. *Sugar.*—Development of improved methods for processing sugarcane and sugar beets into sugar; and development of new industrial uses for the sugar and its byproducts.

8. *Agricultural residues.*—Development of industrial uses for straws, bagasse, cobs, hulls, nutshells, wood wastes, and fruit pits.

One group also mentioned:

9. *New industrial crops.*—Replacement of commodities now in surplus supply with new crops for which research has found potential industrial uses

II. Both groups recommended increased emphasis on all or most of the following lines of marketing research designed to develop new or expanded markets for agricultural products:

1. Market surveys and industrial consumer preference studies.

2. Educational programs to acquaint consumers with the merits of farm products.

3. Studies of costs and efficiencies in marketing.

4. Economic and engineering research in cooperation with marketing agencies and local civic authorities.

UNDEREMPLOYED RURAL PEOPLE

There was substantial agreement as to the major subdivisions of the problem of rural underemployment and the types of programs appropriate to them. The following statement reflects the major suggestions received.

There are about 1.1 million full-time farm operators in the United States who in 1949 had total family incomes from all sources of less than $2,000. These are essentially the underemployed rural people whose underemployment, and accompanying low productivity and

low income, is primarily an agricultural problem. In addition, there are the residential and part-time farmers, about half of which had total family incomes in 1949 of less than $2,000. This summary does not attempt to deal with underemployment of hired laborer or migrant laborer farm families.

The problem of rural underemployment may be discussed under the following five general categories.

I. *Part-time farmers.*—The problem of this group lies primarily outside agriculture. The solution is to be found in better off-farm employment opportunities. This may be accomplished by—

1. A program to stimulate establishment of industries within the areas where the problem is concentrated.
2. Vocational guidance or training directed toward qualifying part-time farmers for available off-farm employment.
3. Improved information as to employment opportunities.

II. *Full-time farmers on inadequate units where adjustment to adequate units would be uneconomic.*—The solution to this problem lies in the movement of the people from such units and the gradual retirement from agriculture of the land. This problem may be attacked by—

1. Vocational education and training to qualify both adults and young people for other occupations.
2. Information on job opportunities in other areas.
3. A program to stimulate movement to other areas where labor may be used efficiently.
4. A long-time program aimed at zoning and the retirement of such units from agriculture.

III. *Farmers on inadequate farms that can be developed or enlarged into adequate units.*—Within this group are those less adapted to efficient farming who, to become fully employed, will be faced with the necessity of leaving agriculture. They can best use a program similar to that suggested for group II above. There are also within this group many who, with adequate resources, can become efficient farm operators. This problem can be solved by—

1. An expanded program of supervised credit for the development and enlargement of land resources and for working capital. Essential to the success of such a program is effective individual guidance on a case basis geared to the financing program.
2. A program to strengthen educational facilities and to stimulate incentive to make improvements.

IV. *Farmers on units producing inadequate incomes because of insufficient working capital and inadequate management skills.*—The problem of this group can be solved by an approach similar to that suggested in group III above except that no problem of farm enlargement or consolidation is involved.

V. *Farmers with inadequate incomes because of failure to employ best technical skills.*—The problem of this group is basically the failure to keep abreast of agricultural developments. It can be attacked by—

1. Improved vocational training in agriculture for both adults and young people.
2. Supervised credit in those cases where continued use of inefficient practices has depleted capital to the point where conventional credit is not available.

Research devoted to the specific problems of the underemployed rural family is needed. It should be aimed at identifying the causes of underemployment, determining the extent and location of underemployment and developing the minimum requirements for efficient farm operation in various areas in terms of adequate resources, alternative systems of farming, and required production per acre and per animal and exploring new market outlets.

Suggestions Volunteered by Individuals

The following pages summarize a number of the more promising suggestions on price support policy that were made to Secretary Benson on a volunteer basis. They are volunteer suggestions in the sense that they were not individually solicited. They are distinct from the suggestions made by State agricultural colleges and other groups in response to specific requests from the Secretary.

It was not feasible to summarize all of the letters and resolutions submitted. Many letters expressed approval of, or opposition to, the existing price-support program for particular commodities. Some letters recommended abandonment of all price supports; a few recommended 100 percent of parity for all or some farm products, without suggesting any mechanism by which this might be accomplished. On some topics, several letters contained the same or similar suggestions. As a rule, proposals which were widely known and understood were omitted from the summaries or mentioned only briefly.

Particular attention was given to the more original proposals, and among these to plans which might prove to be administratively feasible. Some of the more sweeping and vaguely formulated proposals were briefly noted. A few of these, if further elaborated, might prove to have value, though generally over a more limited area than their proponents assume.

Hence, these summaries do not attempt to reflect the consensus of views submitted, nor do they reflect all the variants of the leading types of plans suggested. They represent an attempt by work groups throughout the Department to record, for further consideration by policy officials and advisory groups, those suggestions which seemed to be most original and most promising, and which had not yet been fully subjected to the winnowing process of public and congressional debate.

The suggestions have been grouped under the same headings as were used in the preceding section. For some commodities, few new and promising suggestions were received, and in such cases no summaries were prepared.

AGRICULTURAL ACTS OF 1948 AND 1949

Among the proposals received having specific application to the Agricultural Acts of 1948 and 1949 are the following:

1. One suggestion was that consideration be given to establishing the support price at 90 percent of parity during the first year of operation of newly reimposed acreage allotments and marketing quotas. The theory is that support should be undertaken at 90 percent of parity, rather than at any reduced level suggested by the flexible price formula, during a year when producers are making a

determined effort to properly adjust supply. The suggestion further provides that the support level the following year would be based upon the schedules provided in the Agricultural Act of 1949.

2. A second suggestion was that it would be highly desirable to return to a system of flexible price supports for all agricultural commodities at the end of the current (1953–54) marketing year.

3. Price support should be on a flexible basis. This program should apply to all agricultural commodities, and support should be mandatory only at the disaster-prevention level.

4. A flexible price support system which lowers support prices when Government-held stocks acquired under price-support programs exceed a certain level is suggested. Support price levels in any given year shall not be reduced by more than 10 percent from the previous year. Such reductions are to be made only when the stock accumulation results from acreage in excess of an announced acreage goal and not when the increased stocks are due to high yields.

WHEAT [1]

A good many letters have recommended continuation of price supports for wheat at 90 percent of parity, with acreage allotments being used as needed to keep supplies in line with demand at this price level. A few letters have recommended price-support guaranties graduated according to wheat production or farm size (for example, all of the first 1,000 bushels of wheat produced by any grower should be eligible for high-level support, but only 80 percent of the second 1,000, 60 percent of the third, and so on). The remaining wheat would not be supported. This plan would probably involve compensatory payments to producers (as under some two-price proposals); otherwise, price-support loans and purchases would remove enough eligible wheat from the market so that prices of ineligible wheat would rise to, or nearly to, the support level.

In addition, a number of two-price plans, some of them developed in considerable detail, have been referred to the Department, introduced to the Congress, or described in farm magazines or newspapers. Among them are the following:

1. *Parity certificate plan.*—The plan provides for a two-price marketing system by supporting at parity that part of each year's total production which could be sold in the domestic market at parity (called the primary portion) and disposing at unprotected market prices the balance or surplus (called the secondary portion). The plan is self-financing, with the first buyer of wheat required to purchase (and subsequently sell with the wheat) "parity-supporting certificates;" on wheat exported or processed for feed, the exporter or feed mill would be reimbursed for the face value of the covering certificates. The funds so derived would be used to pay the producer the parity differential on the primary portion of his sale. There would be no acreage or marketing controls and free market prices would obtain domestically.

2. *Certificate plan as embodied in the Stockman bill (82d Cong., H. R. 2149).*—The plan provides for a two-price system, assuring producers 100 percent of parity for the portion of the crop sold domesti-

[1] Includes some proposals not specifically referred to the Department but published in farm magazines, newspapers, or introduced for consideration by the Congress.

cally for food; exports, and sales for nonfood uses would be without price protection. Separation of the markets with respect to price is to be effected by requiring processors (or importers) of wheat to purchase certificates. The price of these certificates is to be the amount by which the parity price exceeds the estimated farm price for the marketing year, or the average loan rate, whichever is the higher, except that it shall not be more than 60 cents per bushel. Loans are to be made available at not less than 60 percent of parity and not less than the loan rate for corn, pound for pound. Acreage allotments are provided for as a basis for distributing the certificates to producers and also for effecting needed production adjustments.

3. *Two-price plan providing for a domestic price level at parity.*—This plan attempts to hold domestic prices at parity by withholding the surplus over domestic requirements from the market and placing it in a national wheat reserve for marketing in export channels (and to some extent for feed). The plan is self-financing, provides for loans at parity, but does not make use of acreage allotments. Separation of market outlets is effected by marketing controls and negotiable certificates.

4. *Two-price national marketing program.*—The proposal provides for full parity prices for wheat consumed domestically as food and for sales for export and feed at free-market prices. It emphasizes marketing quotas in preference to acreage allotments as a means of controlling supplies; provides for low-level loans to facilitate storing and merchandising of surplus; and provides for organization of a self-supporting and producer-controlled marketing corporation, with funds to cover losses sustained under loan programs to be derived from a tax on sales of grain.

5. *Two-price plan for wheat without need for acreage allotments or marketing quotas.*—The plan provides for 90 or 100 percent of parity prices for wheat used as human food (presumably including exports) and marketing of the surplus as livestock feed at 80 to 90 percent of corn parity or 50 to 60 percent of wheat parity, whichever is lower. It points out that under wheat-acreage allotments wheat acreage would be diverted to feed grains anyway, the only difference being that under the proposed plan the acreage would be planted to feed wheat in the fall, thereby giving some winter protection against soil erosion, instead of being planted to a feed crop in the spring. The plan emphasizes soil conservation and freedom from controls, but fails to present a concrete method of separating market outlets with respect to price. The central idea is to transform supplies of wheat (for which domestic food demand is highly inelastic) into commodities such as meat for which demand is relatively elastic.

6. *Multiple-price system.*—The proposal calls for an ambitious export program of 600 million bushels or more annually, based on International Wheat Agreement export quotas and worldwide surplus disposal measures. It calls for the building of permanent storage facilities abroad for 400 million bushels of wheat, to be located on main world waterways near areas of underprivileged peoples, and provides for acreage allotments based on historical and soil conservation considerations. No mechanism of implementation is suggested.

7. *CCC guarantee plan.*—The plan is designed to enable the Government to withdraw from storage, ownership, and merchandising of loan-defaulted grain by transferring these functions to the private

trade. CCC would act as the guarantor of loans and purchase agreements without coming into actual possession or ownership of grain; grain delivered and accepted in payment for loans or in settlement of purchase agreements would become restricted grain which may not be sold into consumption or export except as diverted by CCC.

FATS, OILSEEDS, AND PEANUTS

1. There should be no price-support program for cottonseed.
2. If fats and oils and oilseeds are to be supported it should be done through purchase of soybean oil and lard coupled with an export disposal scheme in preference to buying cottonseed products.
3. In order to reduce Government inventories, the Government should sell cottonseed oil in the domestic market, replace it with equivalent amounts of soybean oil and lard, and sell the latter two abroad.
4. Appoint a committee of representatives of all segments of the peanut industry, including wholesale and retail food distributors and restaurant and hotel operators, plus representatives of the Bureau of Human Nutrition and Home Economics and the Extension Service to aid in operation of the peanut price-support program and in merchandising Government-owned peanuts.

MEAT ANIMALS AND WOOL

Suggestions include proposals for direct (compensatory) payments; price-support purchases of breeding stock during low-price periods; selling meat abroad; Federal credit on livestock herds when prices are distressingly low; and prohibition of imports of livestock and meat during periods of low prices. One letter recommends that parity prices for cattle be published by class and grade of cattle, not as a basis for price support by the Government but to place the cattle feeder in a more favorable light in the eyes of the general public.

Some of the more original suggestions are as follows:

1. A two-price system of supports for prices of cattle. A certain quantity of sales per producer would be afforded support; all additional sales would be at an unsupported market price.
2. Establish a fair price as the average cost of production on supervised recordkeeping farms. Distribute beef to persons on relief in quantities that vary with the relation of the price of cattle to the fair price. Set quotas on cattle marketings to prevent alternate gluts and shortages. And, preferably, add a program to can meat and store it when prices are low, for institutional distribution or for sale when prices are high.
3. Confine purchases of beef for the Armed Forces and school lunches to cow and heifer beef exclusively. Presumably this would continue only during the present period of low prices for cattle.

MARKETING AGREEMENTS AND ORDERS FOR FRUITS, VEGETABLES, AND RELATED COMMODITIES

1. Create producer-controlled national or regional sales monopolies for each commodity or class of commodities to regulate production, marketings, and prices.

2. Establish a Central Farm Marketing Board to own and operate warehouses and facilities, and to buy and sell farm products in order to stabilize agricultural prices.

3. Establish national and regional Federal Reserve Commodity Banks to merchandise agricultural commodities and products on a cooperative basis.

4. Establish cooperative production enterprises in which producers, consumers and others participate as sponsors.

5. Amend the Agricultural Marketing Agreement Act of 1937 to permit the issuance of orders prohibiting shipment of a particular commodity unless it is sold at or above a prescribed minimum price.

6. Amend the Agricultural Marketing Agreement Act of 1937 (or provide new legislation) to authorize self-sustaining stabilization programs, including the issuance of marketing orders for any agricultural commodity or product thereof, establishing stabilization pools, advertising and trade promotion programs, research activities, limitation of shipments, limitation of processing, and other types of market control.

PRICE INSURANCE

Some of the points mentioned in favor of various price-insurance plans are that they would: (1) Permit commodities to flow more freely into trade channels, (2) lower prices to consumers, and (3) stimulate foreign trade. There was little or no recognition of the necessity for spreading price risks between commodities and areas and for avoiding adverse selectivity.

Some leading suggestions were as follows:

1. Payment to stabilization fund by the Government and by farmers—when their income is above normal. Payments to farmers from the fund would be made—presumably when their incomes are below normal—upon conditions specified by a Board.

2. Under this proposal, farmers would pay in a certain percentage of their income in the good years—to be paid back in the bad years. Local production credit associations would receive the payments. If the insured had a credit to his account, he could borrow on it at a nominal rate of interest.

3. This plan suggests an insurance pool based on 100 percent of parity. No details are given as to how the pool would operate. As a supplement to the insurance pool, storable commodities would be stored to prevent a complete price collapse. All storage would be by individual producers or cooperating groups of producers. They could borrow on the stored commodity at 75 percent of parity.

4. Provides for insurance plan based on the cost of production of the individual farmer. Producers would pay into a fund when they report a net income on their income-tax returns. The payments would be collected by the Bureau of Internal Revenue. Payments from the pool would be made when the producer's income was less than his cost of production. A rather involved formula is proposed for determining the insured's cost of production and for making an adjustment to this cost according to the efficiency of the producer.

TWO-PRICE AND MULTIPLE-PRICE PLANS

Domestic and surplus marketing certificates, negotiable between handlers but nontransferable between producers.—Each producer would be allotted domestic marketing certificates based on each individual's proportionate share of the domestic market and surplus marketing certificates equal to the remainder of their average marketings of the previous 3 years. Producers would be entitled to price support at 90 percent of parity (through nonrecourse loans, purchases, and purchase agreements) on the quantity evidenced by domestic marketing certificates, but at only 50 to 65 percent, as determined by the Secretary, on quantities evidenced by surplus marketing certificates. The first purchaser of any commodity not covered by either domestic or surplus certificates would pay into the Treasury the difference between the price paid and 125 percent of parity. Import quotas on commodities deficit in the United States would be allocated among foreign exporters on a historical basis in a total amount equal to the difference between domestic consumption and production.

Other proposals would use certificates to maintain at parity the price of the domestically consumed proportion of storable commodities and sell all remaining production at world prices in foreign markets. Under one proposal price support would bear the same percentage relationship to parity as domestic consumption to total production.

Equalization fee plan.—A plan whereby a tax, 10 cents in the illustration, would be used in a manner comparable to the McNary-Haugen equalization fee is suggested.

Other volunteer suggestions tend toward unqualified nondetailed proposals of a two-price system with the price of the proportion used in domestic consumption to be maintained at 90 or 100 percent of parity. There are a few proponents of support for fixed quantities at a high level of parity with no support for the remainder.

(A domestic two-price plan for cattle, using food stamps, and several two-price plans for wheat, were summarized on earlier pages.)

FOREIGN TRADE

Volunteer suggestions on foreign trade include 3 major types of proposals: (1) Disposition of surpluses for relief purposes, (2) utilization of import duties to encourage exports, and (3) reduction of tariffs and taxes. The third type of proposal is obvious. Leading examples of the other types are as follows:

1. *"Self-financing" disposition for relief.*—The crop-shelf proposal establishes a board which can set up separate corporations to handle surplus commodities. The board would determine the surplus (not defined) and maximum prices to be paid for such surplus. Purchases would be removed permanently from United States markets, but could be donated or sold in case of famine, or to "destitute persons," in the United States or abroad. Operating funds are to be obtained by deduction of 3 percent of the purchase price paid by elevators, warehouses, jobbers, wholesalers, importers and exporters, and by license fees payable by the above at the rate of 1 percent of the purchase price. Producers' income from shelved crops is to be exempted from income tax. The proposal makes no further reference

to disposition of surpluses and no reference to production control or administration.

Other proposals for foreign disposition would substitute surplus farm products for financial aid to foreign countries. Still others would donate surplus products or sell them for whatever could be obtained. None of the proposals gives adequate consideration to the problem of protecting our commercial exports against displacement by supplies disposed of under such programs.

2. *Use of import duties to encourage exports.*—In essence, the latest variant of these proposals would provide for special tariff concessions on industrial imports upon proof of purchase and export of surplus farm products. Surplus crops would be bought at domestic market prices and sold at world prices with the differential (plus profit) being paid to the exporter from a compensation fund. The fund would be financed by the partial duties collected on newly instigated imports plus other tariff revenues.

Farm production would be unrestricted. A Surplus Export Board would determine the total value of surplus agricultural commodities annually and then announce the availability of special tariff concessions on an equivalent value of manufactured goods. The aggregate of privileged imports would be apportioned to foreign countries as they purchased surplus farm products. The Board would have discretionary power to adopt tariff reductions to specific requirements and it would prorate privileged imports for individual manufacturing industries as near to 3 percent of domestic production as possible so as to prevent disproportionate imports. (Manufactured food products would be excepted.) A $2 billion increase in industrial imports and in agricultural exports would be the goal.

INDUSTRIAL USES AND MARKET DEVELOPMENT

1. A method of stimulating "self-help" programs in agricultural industries by price-support incentives is suggested, allowing possibly a 10 percent higher support price for those commodities whose producers and distributors are carrying on a sound "self-help program of research for new uses of their commodity and of merchandising and better marketing procedures to get greater utilization."

2. The expansion of study and development of possible new crops which might have application in industrial uses is recommended. These new crops would supplant some of the present acreage of crops in surplus supply.

3. One suggestion involves utilization of the surplus capacity of the distilling industry in siphoning off from 100 million to an eventual 750 million bushels of surplus grain for manufacture into alcohol for motor fuel use. The alcohol would be used as an antiknock compound for blending with gasoline to increase the octane rating of motor fuel. The plan involves the return of protein feed to the producer after the distillation process. A subsidy would be paid to the producer for the amounts of grain diverted into alcohol.

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I. PRICE SUPPORT AND STORAGE POLICIES FOR FEED GRAINS

Introductory Note

During the early months of 1953 there was great interest, and sometimes considerable bitterness, concerning the effects of the corn price-support program upon the welfare of livestock producers. It was argued that the price-support program for corn drove a wedge between the price of slaughter cattle and the price of range cattle sold as feeders. It was also argued that price supports for milk and butterfat could not equitably be reduced below 90 percent of parity so long as the leading feed grain, corn, was supported at 90 percent of parity.

At the same time there were those who felt that, over a period of years, a strong price-support program for feed grains was an advantage rather than a disadvantage to most livestock producers. The study entitled "Effects on Livestock Producers of Price Support and Storage Programs for Feed Grains" was prepared in July 1953 in response to a specific request from Congressman Hope.

At about the same time, the National Agricultural Advisory Commission requested some background studies relating to feed grain policy. The second study in this section separates out two aspects of a corn price-support program which are often combined or confused, namely (1) the average level of support and (2) the degree of year-to-year variation or flexibility around this average.

During the summer of 1953, before the corn crop was made, it seemed possible that a large crop might raise total corn supplies to a level at which marketing quotas would be mandatory. Under present legislation, this possibility still exists with respect to the 1955 and later crops.

Marketing quotas have never been applied to corn in the past, and it has been generally felt that the administrative difficulties involved in such a program would be prohibitive. Successful enforcement would amount to rationing not only the corn sales of each producer in the commercial area, but also the amount of corn which he would be allowed to feed his livestock.

The study entitled "Alternatives to Marketing Quotas for Corn" was prepared during July and August 1953 in response to a specific request from Congressman Hope. If marketing quotas were not practicable, what feasible alternatives were there to bring the corn program back into balance and avoid excessive stock accumulations?

The study entitled "What Is an Adequate Feed Grain Reserve?" was prepared at the request of the National Agricultural Advisory Commission. The Commission felt that the corn carryover in prospect for 1954 was too high. At the same time, there was considerable feeling that the carryover allowance of 10 percent (roughly 300 million bushels) provided for in existing legislation was too low as an object of public policy. The approach used in this study is, first, to estimate what contingencies can be covered by different carryover levels for

corn and, second, to establish a basis for deciding what contingencies should be covered in view of the cost and benefits involved in providing for them.

During 1952–53, workers at the University of Chicago, under a research contract with the Department of Agriculture, developed a new and promising approach to the appraisal of storage programs. The study entitled "A New Approach to the Appraisal of Storage Policies" was written in the Department to present the main elements and implications of this approach to the Advisory Commission.

A. General Statements

Effects on livestock producers of price-support and storage programs for feed grains

The decline in cattle prices during the past few months [1] has made cattle producers acutely conscious of the relatively stable prices of feed and the role of price supports in maintaining them. With existing large feed supplies, a lowering of price supports for feed grains would indeed provide temporary relief for many livestock producers.

But over a period of years the price and supply stabilization features of price supports on feed grains can benefit livestock producers substantially. Having an adequate supply of feed available at a relatively stable price is on the whole more desirable to livestock men than being subject to constantly varying supplies and even more variable prices of feed.

This is the general situation. Within it there are marked differences according to kind of livestock, area of production, and, most of all, conditions of consumer demand. Trends in demand are so important as to merit consideration of feed program effects separately for conditions of (1) stable and (2) variable demand.

Stable demand

When consumer demand for livestock products is stable—that is, when the number of persons employed and their incomes remain about the same from month to month or year to year—a program of price supports and storage for feed grains is a stabilizing factor to the livestock industry. This is especially true after the industry gets itself adjusted to the level of demand and of feed prices. For then, with prices comparatively steady for the products they sell, livestock producers are not subjected to the shocks of abundant supplies and low prices of feed one year, perhaps followed by less ample or even short supplies and higher prices the next year. They can adjust their scale of production to a more nearly uniform level. To be sure, complete stability is not accomplished, but the fluctuations that remain are less severe than those before.

Different degrees of stability would be achieved in grain-consuming than in forage-consuming livestock, and in livestock produced in feed-surplus than in feed-deficit areas.[2] Present price programs for feed concern only the feed grains. They do not include hay or other

[1] This study was written in July 1953.

[2] See Reserve Levels for Storable Farm Products, S. Doc. 130, 82d Cong., 2d sess., especially "Regional differences in livestock and feed production and in feed requirements," p. 35, and "Differences in effects of feed grain supplies upon various farming types," p. 37.

forage. Livestock such as hogs and poultry, for which 85 percent and 71 percent, respectively, of the feed is feed grain (most of the rest is byproduct feeds), are the most directly affected by price and storage programs for these grains. Beef cattle on feed receive 67 percent of their feed from grains and also are immediately affected by grain storage. Other cattle, including dairy cows, and sheep are primarily consumers of forage.

There nevertheless is less difference among livestock classes in the stabilizing value of feed grain storage than these figures would suggest. Grain can always be substituted for forage to a considerable extent. Storage of grain thus helps to offset variations in the supply of forage, and therefore indirectly has a stabilizing influence on forage-consuming livestock. Moreover, the rate of feeding grain and other concentrates per head of livestock is a major short-run influence on output of several livestock products—milk most of all. Hence, stabilizing the feed grain supply helps greatly to stabilize the production of those products.

Farmers who produce and feed their own grain are probably less conscious of feed prices than are farmers who buy most or all of their feed. The Midwest is the chief feed-surplus producer. The region is likely to have enough feed for its own use in below-average crop years, and can be a first claimant on much of its own supply. The East, South, and West are feed deficit.

It is difficult to generalize the effect of feed programs on a regional basis. However, it would appear that in the Midwest, where livestock producers are likely to think as much in terms of the size of feed supplies as their prices, storage and price programs for feed would have a marked effect in stabilizing livestock production. Influenced most would be the up- and down-swings in hog production. In the East and perhaps the Southeast and west coast, which are primarily dairy-poultry regions, some added stability of output would result but chiefly there would be relief from the price and income effect of alternate high and low feed prices. These latter regions have usually held up output fairly well year after year, but have seen their net incomes narrowed sharply in years of high prices for feed.

These remarks are not intended to suggest any difference in the longtime average level of return to livestock producers in feed-deficit versus feed-surplus areas, or in one kind of livestock production versus another, either with or without a feed program. After a time, any livestock enterprise adjusts to competitive costs so as approximately to equate net returns. But in strictly short-run periods, the prices, production and returns from livestock can behave quite differently for one area or one kind of livestock than another—and differently with feed programs than without them.

Apart from the greater stabilization of livestock output and prices, notable improvements result from feed storage in other ways. Particularly is there an enhanced efficiency in using feed, labor, buildings, and other materials in livestock production when feed prices and therefore the size of livestock operations are afforded some stability.

Varying demand

When consumer demand for livestock products varies, the effects of feed supply programs take on a different chracter. For in this case the stabilizing influence of the feed storage program is com-

plicated, with varying consequences, by the unstabilizing influence of the changes in demand.

If demand increases sharply, reserves of feed at a comparatively stable price are a definite benefit to livestock producers. This was so well demonstrated at the beginning of World War II and again at the beginning of the Korean conflict as to need no elaboration. In effect, the livestock producer prospers from the expanded demand, and the consumer benefits too; the producer of feed receives at the time little extra return from it.

When consumer demand decreases due to a business recession the effects of a grain price-support program are opposite. The feed grain producer is partially insulated from the weaker demand, while the livestock producer is forced to make adjustments to it. He finds it necessary to pay prices for feed grains nearly as high as before.[3] It is in this situation that livestock producers, principally producers of grain-consuming livestock in grain-deficit areas, are most vulnerable to a price pincers. Without a feed-support program, the effects of weaker consumer demand would be passed back to the producer of feed in the form of lower prices for feed; under a feed program, the livestock producer is caught between declining prices for his product and less reduced prices for feed and is forced to adjust his output to the new price relationship.

After the adjustments to new demand conditions are made, prices of livestock products are higher than they would be in the absence of feed storage. The contractions in livestock output tend to restore prices of livestock products. In this sense there is some ultimate benefit from feed programs after the painful adjustment process is over. Though price may be held up income is not, since the volume of production and marketings is lower than it had been.

Livestock producers whose products are accorded some price support—chiefly dairymen and wool producers—are not required to make such a difficult adjustment when demand declines. It is the hog and poultry producers and cattle and lamb feeders who are caught most tightly in the temporary squeeze between declining selling prices and less flexible feed costs.

Cycles in livestock

In addition to instability arising from fluctuating supplies and prices of feed and from unsteady demand, there is a cyclical variability caused by leads and lags in production adjustments within the livestock industry itself. The long-time period that elapses between a production decision (as for breeding) and the consequent marketing gives a cyclical pattern to most adjustments in livestock. The longer the natural biological period, the longer and more obvious the cycle. In chickens adjustments are made quickly. In cattle, which have a long life span, there is a long cycle.

Cyclical changes in livestock production when feed grain prices are stabilized have effects much the same as changes in demand. When production has expanded cyclically and livestock producers find their selling prices lower but the price of feed remains unchanged, they experience a price-cost squeeze like that which results from declining consumer demand.

[3] Feed grain prices when supported change slowly because (1) the parity index, which partially determines the support price, changes slowly; (2) support prices, announced a year in advance, can be adjusted only at yearly intervals. In commercial mixed feeds the tendency toward constant charges by mixers and distributors also impedes rapid price changes.

To abandon price programs on feed would not aid livestock producers greatly, except sometimes temporarily. When there are no feed programs, prices of feed do not move up or down sympathetically with cyclical changes in production of individual classes of livestock; cyclical livestock-feed price squeezes occur then, too, and livestock production adjustments are required just as they are when feed programs are operating.

Long-time levels

Not considered here is whether the long-time level of livestock production is higher or lower due to programs of price support and storage for feed. The above comments have been directed to the question of short-time fluctuations and their possible moderation.

The height of price supports on feed grain determines their overall effect on the volume of livestock production. Should supports be so high as to restrict the livestock industry and require acreage allotments on corn, total livestock output would probably be smaller than under no supports or lower supports for feed. Supporting feed grain prices at low levels would certainly not restrict livestock output and might give a small net expansion. There might be less stability if too little reserve should be built up to meet needs in short-crop years.

There is evidence that the assurance given feed grain prices by supports while most livestock prices are unsupported may encourage more storage of grain and result in a slightly smaller livestock production than would take place under the same but unsupported feed prices. In 1953, for example, fewer pigs are being raised than would be expected from the present high hog-corn price ratio. Apparently the relatively assured prices for corn but less assured prices for hogs are tending to hold hog production below what it would otherwise be. This apparent feature of a grain support and storage program may be regarded as favorable or unfavorable depending on what the objectives in livestock production and prices are held to be.

Summary

In summary, livestock producers appear to be better off because of price and storage programs for feed grains than without them. Having a stable supply of feed available at comparatively stable prices helps livestock producers to stabilize their operations during a period when consumer demand is unchanging; and it aids them greatly when a sharp increase in demand calls for a stepped-up livestock output. These advantages appear to outweigh the disadvantage in which many livestock producers find themselves when demand declines, as they are squeezed between a falling price for their product and relatively firm prices for feed—a price squeeze that lasts until the level of production is adjusted so as to restore a more nearly normal product-feed price relationship.

SOME EFFECTS OF THE AVERAGE LEVEL AND FLEXIBILITY OF PRICE SUPPORTS FOR CORN

Effects of the average price support level for corn

1. Over a period of years, prices of feed grains and of grain-consuming livestock and products tend toward fairly definite average relationships—the well-known livestock-feed price ratios.

The ratios for poultry and eggs have trended gradually downward over the past 20 years, due to increased efficiency in flock management and feed utilization. There has been no evidence of such trends in the hog-corn and milk-feed ratios, but the butterfat-feed ratio in recent years has been below the long-term average partly, at least, because of intensified competition from vegetable oils.

2. Under free market conditions, a short corn crop results in high corn prices and reduced production of livestock—especially hogs. In this case there is not enough corn in existence to maintain the previous level of livestock production, and the market price rations supplies to the highest bidders.

But a high (and effective) support price for corn can be used to throttle back livestock production even though total feed supplies are ample. Many would regard this effect as desirable under temporarily depressed business conditions; few would advocate it as a means of holding livestock prices continuously above their expected free market level under conditions of high employment and income.

3. As a group, livestock prices in the United States are almost wholly determined by domestic supply and demand factors. They are not much exposed to sudden, drastic changes in the export market, as are, for example, wheat, cotton, and tobacco.

During 1922–41, 98 percent of the year-to-year variation in retail prices of food livestock products was associated with changes in domestic livestock supplies and in the disposable income of domestic consumers. And about 97 percent of the year-to-year variation in farm prices of livestock was associated with changes in their average retail prices.

4. A major question of livestock policy is this:

Given sustained high employment and prosperity in the domestic economy, shall the livestock industries be permitted to strike their own price and production balance at levels which will not require extensive Government programs to restrict production of feed grains?

The great bulk of feed-grain production is fed to livestock on the farm where the grain is grown. Producers on integrated feed-livestock farms get most of their income from sales of livestock; the production expenses are incurred both in growing feed and in managing stock. If livestock producers nationally are able to strike a satisfactory price and production balance for livestock they are implicitly able, by and large, to balance their feed production with their livestock programs.

5. The new or modernized parity price for each livestock product and each feed grain is now (August 1953) based on its average relationship to the index of prices received by farmers for all commodities during the 10 year period, 1943–52. This entire decade was characterized by high employment—high enough (with other demands) to keep the average level of farm prices at or above parity in 9 of its 10 years. On the whole, there was little price-support activity on livestock products, and corn prices averaged above support levels (90 percent of old parity) in 8 of the 10 years.

Livestock-feed ratios during 1943–52 averaged close to their earlier long-run levels. The hog-corn ratio, for example, averaged 12.7, identical with its average during the 20 years, 1932–51. The new parity prices for hogs and corn stand in the same ratio as their 1943–52 average prices, namely, 12.7.

6. The effective parity prices of all livestock and livestock products are based on the new formula. As 75 percent of the corn crop is first marketed in the form of livestock products and 15 percent more goes into feeds purchased by other livestock producers, there are strong reasons for basing corn parity also, and corn price supports, upon the new formula.

7. Under present legislation, however, the parity price of corn is to be calculated by the old formula until January 1, 1956. As of July 15, the parity price of corn by this formula was $1.77 per bushel. As of the same date, the parity price of corn if calculated by the new or modernized formula would have been $1.59 per bushel, equivalent to just 90 percent of the old parity.

In the past, from year to year, a reduction of 10 percent in the market price of corn (with total consumer income remaining constant) has been associated with an increase of 4 to 5 percent in the rate of corn utilization—equivalent at present to from 120 to 150 million bushels. Thus supports based on 90 percent of new parity for corn would relieve some of the pressures which may continue to mount at the present support level.

8. Setting corn supports at 90 percent of new parity would not mean that market prices for corn would always be 10 percent lower than under the present program. After the present grain storage situation has been eased, the demand for livestock products, given a high employment economy, would probably pull corn prices above the new support level a good deal of the time.

Effects of year-to-year flexibility

1. The need for flexibility in corn price supports depends on the typical level of support which is contemplated. No flexibility would be needed below a typical support level for corn at 60 percent of new parity, as market prices probably would not drop below that level even in a record crop year such as 1948.

But flexibility becomes an important issue if the typical price support level is 90 percent of old parity. This support level, with normal livestock-feed ratios, is about in line with grain-consuming livestock prices at 100 percent of their own parities. If the average level of livestock prices falls just a little below 100 percent of parity, or if corn production rises just a little above 3.0 to 3.1 billion bushels, the price-support agency will add to its stocks. And (under present legislation) unless corn prices later rise above the support level by 5 percent plus reasonable carrying charges, or unless the grain deteriorates in quality, these stocks cannot be returned to the domestic market. With consumer demand at present levels, the required price rise would be unlikely unless the next year's corn crop proved to be 2.9 billion bushels or less, as in 1945 and 1951.

2. With corn supports based on 90 percent of new parity, crops of around 3.2 billion bushels should clear the market in most years of high employment. And a crop of 3 billion bushels should permit some net release of price-support stocks. A program based on 90 percent of new parity would accommodate average corn yields 1½ to 2 bushels per acre higher without getting into surplus difficulties than would a program based on the same percentage of old parity.

3. Under the terms of the Agricultural Act of 1949, it would take a very large corn supply indeed to permit supports as low as 80 percent

of parity. If the flexible schedule were available now, support for the 1953 crop could be no lower than 82 or 83 percent of parity. An average corn crop in 1954, coupled with the prospective 900 million bushel carry-in, also would permit a minimum support price of about 83 percent of parity.

While a policy of carrying large stocks of corn (say 750 to 1,000 million bushels) would permit price supports averaging between 80 and 85 percent of parity, it might not be desirable to take advantage of this fact so long as current production of corn was clearing the market at 90 percent of (new) parity. But administrative discretion to use the flexible schedule when needed might provide a preferred alternative to acreage allotments on corn at certain times.

ALTERNATIVES TO MARKETING QUOTAS FOR CORN [4]

This statement was prepared in answer to the following inquiry:

In view of the possibility of corn supplies reaching marketing quota levels and the expected difficulty of administering marketing quotas for corn, what appear to be the most feasible alternatives to marketing quotas for corn when stocks reach high levels?

(*a*) If acreage allotments are announced for corn would it appear desirable to have acreage allotments on soybeans at the same time to prevent overplanting of soybeans?

It appears desirable to analyze the current situation (as of August 1953) in its legal, economic, and other aspects before presenting possible answers to these questions.

Existing marketing quota and acreage allotment legislation as it would apply to the 1954 crop of corn

Section 322 (a) of the Agricultural Adjustment Act of 1938, as amended, requires the Secretary not later than November 15, 1953, to proclaim that marketing quotas shall be in effect on the 1954 crop of corn in the commercial corn-producing area if he determines:

(1) that the total supply of corn for the 1953–54 marketing year will exceed the normal supply for such marketing year by more than 20 per centum; or

(2) that the total supply of corn for the 1952–53 marketing year is not less than the normal supply for such marketing year, and that the average farm price for corn for 3 successive months of such marketing year does not exceed 66 per centum of parity.

Section 322 (d) of the act, as amended, would require the holding, within 20 days after the date of the issuance of a proclamation of marketing quotas on the 1954 crop of corn, of a referendum of corn producers who would be subject to the quotas to determine whether such producers favor or oppose such quotas.

Section 327 of the act would require that the 1954 commercial corn-producing area be proclaimed not later than February 1, 1954.

Section 328 of the act would require the proclamation of the acreage allotment (if any) on the 1954 crop of corn for the commercial corn-producing area not later than February 1, 1954.

Under these provisions of law, marketing quotas would be proclaimed only when supplies reached a certain level, or when prices for corn were low and supplies exceeded normal needs, whereas acreage

[4] This study was written in August 1953.

allotments are required each year unless dispensed with by the Secretary under the emergency provisions of the act.

Section 362 of the act, as amended, requires that—

> Notice of the farm-acreage allotment established for each farm shown by the records of the county committee to be entitled to such allotment shall insofar as practicable be mailed to the farm operator in sufficient time to be received prior to the date of the referendum.

Accordingly, if marketing quotas were proclaimed (not later than November 15), the commercial corn-producing area and the acreage allotment for such area would have to be determined and proclaimed at about the same time in order that farmers could be notified of their farm-acreage allotments prior to the date of the referendum.

The corn situation, 1953–54

The 1953 corn crop of 3,216 million bushels (September 1 indication) plus the prospective carryover of about 800 million bushels is more than adequate for prospective domestic and export requirements.[5] Carryover stocks at the end of the 1953–54 marketing year probably will increase to around 900 million bushels, as supplies of other feed grains and byproduct feeds are adequate for the livestock to be fed.

Under present law acreage allotments will be required for the 1954 corn crop, except in case of a national emergency. The normal supply of corn for both 1953–54 and 1954–55 is placed at about 3.5 billion bushels. Deducting the prospective carryover (on October 1, 1954) and the 650 million bushels estimated production in the noncommercial corn-producing areas (not subject to allotments), only about 1,950 million bushels would be needed from the commercial corn area. The acreage-allotment level would thus be around 44 million acres for the commercial area, around a fifth less than was planted in that area in 1953.[6]

Marketing quotas for corn are required if the production plus carryover exceeds 120 percent of the normal supply. Adjustments from estimated 1952–53 disappearance for abnormalities, as prescribed by law, are included in calculating normal supply. Current estimates of production and carryover are within about 200 million bushels of the level at which marketing quotas would be required.

Carryover needs

Price support and storage programs for corn during the past 15 years have materially reduced the earlier variability of corn consumption. During 1926–37, about 60 percent of a year-to-year change in corn production was transmitted into a change in livestock feeding. On the average, 30 percent of a change in corn production was taken up by changes in year-end stocks. During 1938–50, these proportions were reversed, with only 30 percent of a change in corn production being transmitted into livestock feeding, and 60 percent into changes in stocks. This has, of course, resulted in a much higher average carryover of corn in recent years than was typical prior to 1938.

Under peacetime conditions, the main argument for stabilizing feed grain supplies and prices rests upon the desirability of stabilizing livestock production. Livestock producers and processors should be

[5] Final estimates were 3,177 million bushels of 1953 crop production and an October 1, 1953, carryover of 769 million bushels.

[6] Actual 1954 acreage allotment announced January 20, 1954, is 46,995,504 acres, or 17.4 percent less than was planted in the commercial corn area in 1953.

able to effect significant economies as a result of greater stability in livestock production. The use of feed-grain stocks to meet the initial economic shock of war or defense mobilization has been demonstrated twice in recent years, once following our entry into World War II and again following the outbreak of hostilities in Korea.

Corn is the most important single livestock feed in the United States, accounting for about 70 percent of all grains fed to livestock. Relatively little corn is exported or imported. Corn may be stored on the farm at les sexpense than any other feed. Livestock production in any 1 year is materially affected by the amount available for feeding during the year. Corn must be prominent, therefore, in any program designed to stabilize physical supplies of livestock feed.

In a report entitled "Reserve Levels for Storable Farm Products," prepared for the Senate Committee on Agriculture and Forestry in April 1952, the following statement appears:

> The poorest individual yields for corn (as adjusted) were 10 or 11 bushels below trend * * *. In terms of production at current acreage levels, such yields would reduce production by 850 to 950 million bushels below the expected trend level * * *. The great bulk of the corn supply is consumed by livestock and there is some flexibility in feeding requirements. Yields of other feed grains tend to fluctuate in the same direction as do yields of corn, so that the variation in total feed-grain production is about 20 to 25 percent larger (in tons or equivalent bushels of corn) than in production of corn alone. To cover this additional source of variation would have required a total carryover of 900 million to 1 billion bushels of corn plus the equivalent of another 100 million bushels in the form of reserves of other grains in excess of working stocks.

If the advantages of stabilizing livestock production and maintaining grain reserves for defense emergencies are deemed sufficient to warrant stock levels such as those just mentioned, it would appear that consideration should be given to raising the carryover allowances for corn, and particularly the implied target level of stocks when acreage allotments or marketing quotas are applied. At the same time, it should be recognized that a policy of carrying large stocks of corn involves storage costs and price risks, some of which might result in net losses to the price-support agency.

In view of the fact that ordinarily only about one-fourth of the corn crop is sold from farms where produced, it would appear extremely improbable that two-thirds of the farmers voting would be in favor of invoking marketing quotas for corn. If marketing quotas were turned down by voting farmers, there would be a very serious drop in the market price for corn, with undesirable effects on other parts of the economy as well.

This would also raise a question as to the price at which CCC should sell its corn and the extent of the loss which might be realized on such sales. With the price support at 50 percent of parity and with corn acreage unrestricted, corn prices would be much lower than at present. CCC would be faced with the alternative of selling corn at very low prices or holding it for the possibility of rising prices later. Corn going out of condition would necessarily have to be disposed of at the market prices existing at the time.

Therefore, in view of the difficulties that would be involved in administering the marketing-quota provisions of the Agriculture Adjustment Act, it is suggested that acreage allotments be relied upon for adjusting corn production to a level in line with domestic and export requirements. It appears that a continuous acreage-allotment

program for corn would be sufficient to effect the necessary adjustments in acreage and production in periods of reasonably high demand such as we have had since World War II.

On the basis of our experience in 1950 it is probable that participation in an acreage-allotment program would be in the neighborhood of 50 percent. Such participation would be expected to give a reduction of about 4 or 5 million acres for the entire country. In 1950 corn acreage was reduced 5.3 million acres in the high-yielding commercial area. With acreage allotments on cotton, corn acreage increased about 1 million acres in the Southern States, where average corn yields were lower. With average growing conditions, and assuming a continued generally favorable level of demand, a national corn acreage of around 76 or 77 million acres would produce less than our probable requirements.

A short crop would enable us to make substantial inroads in our carryover stocks of corn. Along with the allotment program for corn a provision might be considered that on farms having cotton allotments, farmers would not be eligible for cotton loans if they increased their corn acreage over the preceding year. Also, joint compliance provisions might be worked out so that farmers staying within their wheat allotments could not offset the decrease by increasing their corn acreage.

In addition to some reduction in acreage and production of corn through acreage allotments, application of the flexible price-support provisions of the 1949 act would make possible an increase in corn consumption. With supplies as large as those in prospect for 1953–54 or 1954–55 (assuming a normal growing season next year), the sliding-scale provision of the act would call for a price support of about 82 or 83 percent of parity. Based on the current (August 15) parity index, 82 percent of the old parity for corn (now in effect) would be $1.46 per bushel, and 82 percent of the modernized parity (which could be applied as of January 1956) would be $1.30. This compares with the present 90 percent support of $1.60 per bushel under the old parity formula.

Based on past relationships, a 10 percent reduction in price would probably result in a 4 or 5 percent increase in domestic utilization of corn, after adjusting for factors other than the price of corn. If supports were lowered from 90 to about 82 percent of old parity under present conditions, corn disappearance would probably increase by 100 to 150 million bushels per year. Support at 82 percent of modernized parity under current conditions should permit an increase of 250 to 300 million bushels in domestic corn utilization. However, only 100 to 150 million bushels of this would be attributable to use of the flexible scale as such.

The combined effects of a reduction of around 200 million bushels in corn production (through acreage allotments), and an increase of 100 million bushels or so in consumption (with the flexible price supports) could make substantial reductions in corn supplies over a few years, given continuation of a reasonably high level of demand such as we have had since World War II. If the modernized parity formula were adopted under these demand conditions, and if supports ranged from 80 to 90 percent of this parity ($1.27 to $1.43 per bushel as of August 15, 1953), corn prices would probably average above the support level in most years. This combination of policies and cir-

cumstances should provide sufficient opportunity to balance the supply and demand for corn over a period of years without invoking marketing quotas.

Acreage controls on soybeans

If acreage allotments are announced for corn, it appears essential that acreage allotments be established for soybeans at the same time in order to limit production of fats and oils to reasonable levels. Several of the major corn-producing States are likewise the more important soybean-producing States and a nominal percentage reduction in corn acreage would be of major significance if devoted to the production of soybeans. The increase in soybean acreage in this country was very pronounced during the 1930's when corn acreage was reduced. With soybeans now an established and important crop it is reasonable to expect that, in event of corn-acreage restrictions, the shift to soybeans would be even more pronounced than was the case in the 1930's. The need for production controls on soybeans would be further influenced by the possibility of acreage controls and marketing quotas for cotton in 1954. In 1950, when both corn and cotton were subject to acreage restrictions, soybean acreage increased about 3 million acres, of which 2 million were in the Corn Belt.

Existing legislation provides only for acreage allotments on soybeans and predicates eligibility for price support on compliance with such acreage restrictions. However, there is serious doubt as to whether acreage allotments alone would be sufficiently effective to preclude production of a substantial surplus of fats and oils and oil-bearing materials. Under such conditions, there would be a tendency to further increase the already large surplus of fats and oils and oilseeds held by the CCC and to further postpone needed adjustments in the fats and oils economy.

B. Storage Policy

WHAT IS AN ADEQUATE RESERVE LEVEL FOR CORN AND TOTAL FEED GRAINS?

Summary and conclusions

1. The first step in deciding what level of corn carryover is adequate is to estimate what contingencies can be covered by different carryover levels. The second step is to decide what contingencies should be covered, in view of the costs (and benefits) involved in providing for them.

2. About 150 million bushels of corn and an equivalent combined tonnage of other feed grains are needed at the end of a crop year (October 1 for corn) to cover minimum "pipeline" needs until new-crop corn supplies start moving in volume. These stocks are carried in private ownership.

3. Carryover stocks of oats, barley, and sorghum grains combined at the ends of their respective marketing years have rarely exceeded the weight equivalent of 250 million bushels of corn—which means not more than 100 million bushels corn equivalent of usable reserves over and above minimum "pipeline" stocks of these grains.

The great bull of our usable feed-grain reserves (above "pipeline" needs) has been, and probably will be, carried in the form of corn.

4. Judging from 1901–50 experience, corn production is likely to stay within 10 percent, or about 300 million bushels, of its trend level in 3 years out of 4. Changes in peacetime demand for corn from one year to the next are usually small.

Total carryover stocks of corn averaging 300 to 350 million bushels would probably be adequate to offset variations in the supply and demand for feed grains within the normal range mentioned above. In addition to "pipeline" stocks of 150 million bushels, the total carryover would generally include 150 to 200 million bushels of usable reserves, some in private hands and some under loan or in CCC ownership.

In averaging 150 to 200 million bushels, these usable supplementary reserves might range from 0 up to about 300 million bushels.

5. During 1901–50 there were 3 years in which corn yields fell 10 or 11 bushels below trend, involving production deficits of 800 to 900 million bushels of corn. In 2 of these years (1934 and 1936) production of other feed grains was also below trend by 300 million bushels or more corn equivalent. To be sure of meeting 50 percent of a total feed-grain deficit of the 1934 or 1936 magnitude would require usable reserves of nearly 600 million, or a total carryover of about 700 million, bushels of corn.

6. A more efficient way than this to provide for seriously low corn yields (production more than 300 million bushels below trend) might be to carry an emergency reserve of perhaps 200 to 250 million bushels for use in the years in which corn production was seriously short, and under special resale price limitations, as "not less than 105 (or 100) percent of parity."

7. Under present circumstances, there is a good deal to be said for carrying some corn as a reserve for defense emergencies. The size of such a reserve should logically be based upon considerations of (a) the likelihood of defense emergencies over the next few years and (b) the extent of damage to the economy if such emergencies find us without feed reserves.

Some rather arbitrary assumptions on these two points lead to defense reserves of anywhere from 200 to 400 million bushels. If war danger increased, a high reserve level would be justified; if war danger should diminish, the size of this reserve should be scaled down.

8. For efficiency and economy, stocks carried (1) for defense needs and (2) for serious production deficits should be operated as a single emergency reserve. The size of this reserve under present conditions should probably be about 300 to 400 million bushels. If defense hazards diminish, this reserve might be pared down to the 200 to 250 million bushels suggested as a reserve for low-yield contingencies.

9. The combination of policies outlined above would lead to a corn carryover of the following size and composition:

	Million bushels
Emergency reserves	300–400
Minimum "pipeline" stocks	150
Subtotal	450–550
Supplementary stocks	0–300
Total carryover	450–850

On this basis, a typical carryover during a period of normal yields would total 600 to 700 million bushels. Stocks would average considerably less than this for 1 to 3 years following a severe drought,

and would, of course, be drawn down during a major defense emergency.

10. Although some elements underlying the above total carryover estimates are matters of judgment, it seems clear that the Government should not, under present conditions, take actions calculated to reduce the total corn carryover below about 500 million bushels. Further, if the level of corn price support were about right to move an average crop into consumption, there would be little reason for alarm if corn stocks rose to 800 million bushels or so as a clear consequence of better-than-average weather.

11. If an emergency reserve, with more stringent limitations on resale than apply to present price support stocks, were to be carried as a matter of public policy, it should probably be subtracted from the total carryover in calculating supply percentages and determining minimum levels of price support.

However, this provision would tend to maintain minimum loan rates under the 1949 act within 3 or 4 percent of the maximum (90 percent of parity), thereby removing most of the price flexibility now in this act. This would make the maximum level of support for corn an extremely important consideration, as this level would largely determine whether corn consumption could be balanced with average corn production without continuous use of acreage controls.

GENERAL REPORT

Stocks of corn may be carried over from 1 crop year to another for 3 main purposes: (1) To provide normal working stocks, (2) to offset variations in production, and (3) to stabilize prices and offset variations in demand, including provision for meeting war or defense emergencies.

Some corn must be carried over at the end of a marketing season in order to maintain the continuity of feeding, processing, and distribution during the transition from 1 crop year to the next. "Pipeline" stocks of this sort are the working stocks of firms or individuals essential to normal business operations, including livestock feeding. A year-end (October 1) stock of 150 million bushels is considered the minimum quantity needed to take care of "pipeline" needs in the transition from 1 crop to another. About an equal combined tonnage of other feed grains (oats, barley, and grain sorghums) would be needed for similar purposes at the end of their respective crop years. (Stocks were reduced slightly below this level at the end of the 1947 crop year, following the smallest corn crop in many years.)

These minimum working stocks are not available for offsetting variations in feed production or requirements. Only the corn stocks in excess of 150 million bushels or so can be counted on for stabilization or emergency uses.

Carryover stocks of oats, barley, and sorghum grains combined have rarely exceeded the weight equivalent of about 250 million bushels of corn—meaning that usable reserves of these grains (beyond "pipeline" needs) have seldom exceeded 100 million bushels corn-equivalent. The great bulk of our usable feed grain reserves have been, and probably will continue to be, carried in the form of corn.

Stocks needed to offset variations in corn and other feed grain production

1. The great bulk of year-to-year variation in corn production is due to variations in yield (fig. 1). Corn acreage is quite stable, rarely changing by more than 3 or 4 percent from 1 year to the next. Even acreage allotments have not caused sharp reductions in total corn acreage.

The maximum year-to-year change in corn production due to an acreage shift has been about 200 million bushels. But yield effects exceeded 1,000 million bushels on 2 occasions (1936 to 1937 and 1947 to 1948) and exceeded 500 million bushels on 9 occasions during the 1901–50 period.

2. Variations in corn yields around their normal or trend level are shown in the central section of figure 2. On 3 occasions during 1901–50 corn yields dropped more than 10 bushels per acre below trend. At present acreage levels, this would mean a production deficit of 800 to 900 million bushels. On 4 other occasions, yields were at least 4 bushels below trend, involving production deficits of about 350 to 600 million bushels. There were also 5 occasions on which corn yields exceeded their trend by at least 4 bushels, involving production excesses (above average) of about 350 to 650 million bushels. In 38 years out of 50, corn yields were within less than 4 bushels of the trend, and corn production was within less than 10 percent (about 300 million bushels) of its trend level.

3. These are the essential facts of our experience with corn yield variation, adjusted as nearly as possible to current conditions. But there are sharp differences of opinion as to the reserve levels or storage policies which these facts imply.

One statement of a high stock policy based on these facts is contained in Senate Document No. 130, 82d Congress, 2d session. After citing the worst corn production deficits of "850 to 950 million bushels," it goes on to say:

> For a number of reasons it does not seem necessary to offset variations in corn production bushel for bushel. The great bulk of the corn supply is consumed by livestock and there is some flexibility in feeding requirements. Further, despite the fact that corn is the key feed grain, it provides only about one-quarter of the total supply of livestock feeds, including other feed grains, byproduct feeds, hay, range and pasture.
>
> There is another factor, however, which tends to increase corn requirements. Yields of other feed grains tend to fluctuate in the same direction as do yields of corn, so that the variation in total feed-grain production is about 20 to 25 percent larger (in tons or equivalent bushels of corn) than in production of corn alone. To cover this additional source of variation (and that in corn yields as well) would have required a total carryover of 900 million to 1 billion bushels of corn plus the equivalent of another 100 million bushels in the form of reserves of other grains in excess of working stocks.
>
> Except during 1934–36 the low individual yields of corn were widely spaced. No sequence of 2 or 3 below-average yields aside from 1934–36 would have called for a carryover of more than 800 to 900 million bushels of corn (table 1). However, to cover the 1934–36 sequence in full would have required beginning stocks of corn and other feed grains of close to 2 billion bushels corn equivalent. Again, no other sequence of years during the recorded history from 1866 to date was of equal severity, and it does not seem feasible to carry stocks of the magnitude required to cover such an event.

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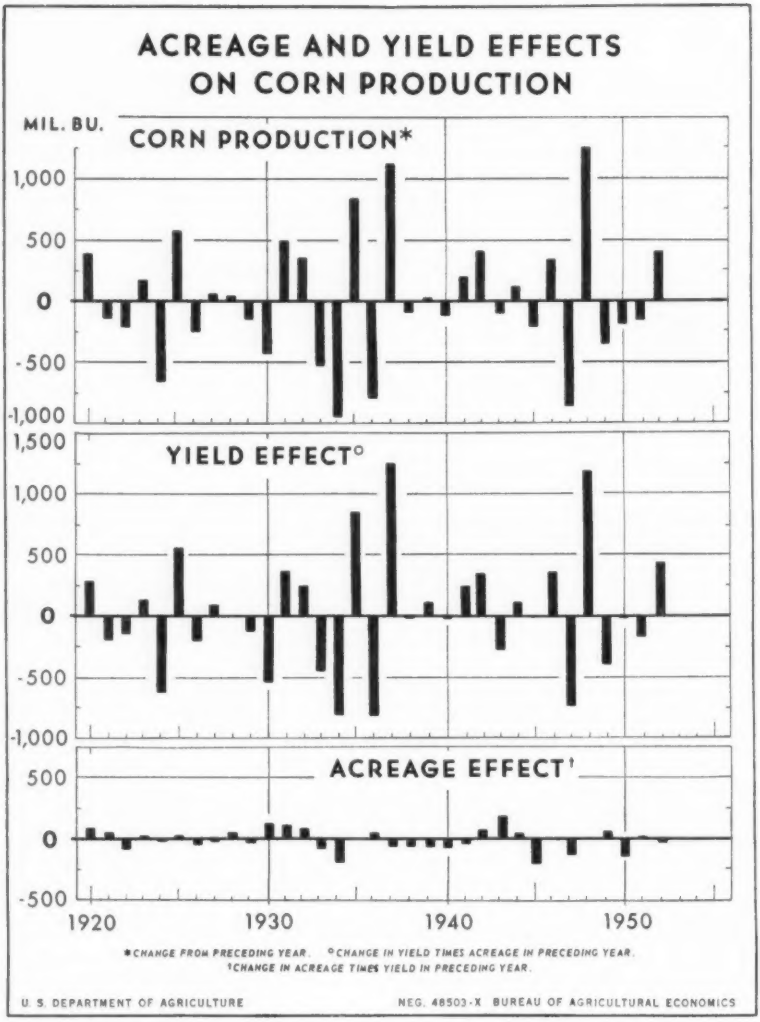
ACREAGE AND YIELD EFFECTS
ON CORN PRODUCTION
MIL. BU.
CORN PRODUCTION*
1,000
500
0
-500
-1,000
1,500
YIELD EFFECT°
1,000
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-500
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ACREAGE EFFECT†
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1920
1930
1940
1950
*CHANGE FROM PRECEDING YEAR. °CHANGE IN YIELD TIMES ACREAGE IN PRECEDING YEAR.
†CHANGE IN ACREAGE TIMES YIELD IN PRECEDING YEAR.
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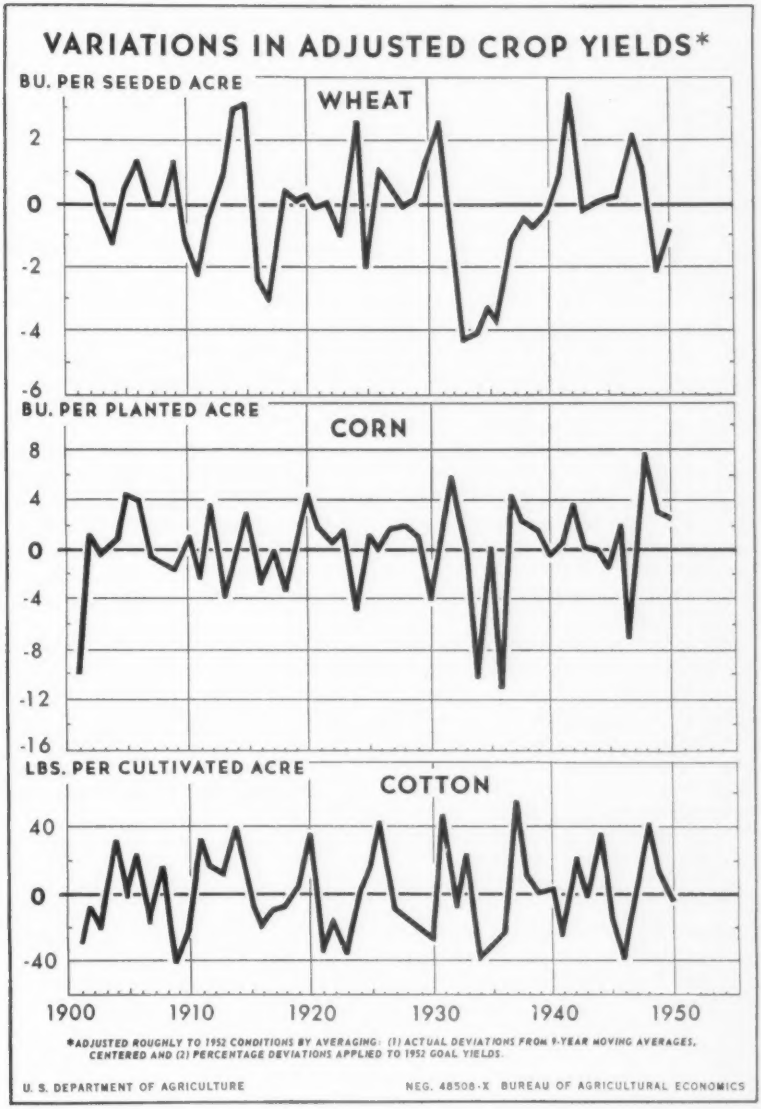

VARIATIONS IN ADJUSTED CROP YIELDS*
BU. PER SEEDED ACRE
WHEAT
2
0
-2
-4
-6
BU. PER PLANTED ACRE
CORN
8
4
0
-4
-8
-12
-16
LBS. PER CULTIVATED ACRE
COTTON
40
0
-40
1900
1910
1920
1930
1940
1950
*ADJUSTED ROUGHLY TO 1952 CONDITIONS BY AVERAGING: (1) ACTUAL DEVIATIONS FROM 9-YEAR MOVING AVERAGES, CENTERED AND (2) PERCENTAGE DEVIATIONS APPLIED TO 1952 GOAL YIELDS.
U. S. DEPARTMENT OF AGRICULTURE
NEG. 48508-X BUREAU OF AGRICULTURAL ECONOMICS

TABLE 1.—*Corn: Worst individual yields and sequences of yields, United States 1901–50*

Years	Bushels	Million bushels [1]
(a) Individual years:		
1936	−11.2	−952
1934	−10.4	−884
1901	−10.2	−867
1947	−7.2	−612
1924	−5.8	−493
1930	−4.1	−348
1913	−4.0	−341
(b) Sequences:		
1934–36	−21.4	−1,819
1916–18	−6.4	−544
1907–09	−3.6	−306

[1] Assuming 85 million planted acres.

4. But when storage and interest charges are taken into account, stocks of 900 to 1,000 million bushels of corn probably involve higher costs than are consistent with the benefits obtained by offsetting yield variations to this extent. (Stocks for defense emergencies are disregarded for the moment.)

For the above stocks are sufficient to cover yield contingencies which have arisen on the average only about 1 year in 10 or 12. Furthermore, these contingencies have not been evenly spaced. The 1936 drought followed that of 1934 so closely that this policy would have offered little protection in 1936. On the other hand, the serious production deficits of 1901 and 1934 were separated by 33 years. A high stock policy for yield contingencies only would certainly not have survived a period of this sort.

5. It is hard to justify the choice of a particular yield-reserve level on simple commonsense grounds. For example, we might argue for meeting, on the average, about one-half of each serious production deficit. To do this in a year such as 1934 or 1936, in which corn production was 900 million bushels below trend and production of other feed grains was also down by more than 300 million bushels corn equivalent, would require usable reserves of 600 million and total reserves of about 700 million bushels of corn.

This would still be a high-cost policy for covering yield contingencies of such infrequent occurrence.

6. A considerable degree of protection at substantially lower costs might be provided by carrying a special reserve under rather strict limitations as to resale. For example, CCC might undertake to carry an "emergency" reserve of, say, 200 to 250 million bushels [7] to be released only when corn production was below normal requirements by at least 300 million bushels. (Or CCC might operate in such a way that the total carryover, private plus CCC, remained at or above 400 million bushels except in such low-production years.) Judging from 1901–50 experience, production deficits of 300 million bushels or more might occur about 1 year out of 7.

In an extreme situation, the emergency reserve might be channeled into particular areas or uses. Despite some slippages which might

[7] This figure might be justified or modified by an analysis of (1) the amount of corn sold by farmers in short-crop years relative to food uses and minimum commercial feed requirements and (2) the additional amount of corn which might be required to supplement private sales for these uses and to enable farmers in stricken areas to carry their breeding herds on a minimum basis and finish out spring pig crop and cattle-feeding operations without panic liquidation prior to the availability of new-crop feed supplies.

occur, this sort of program would be more effective in relieving severe hardship than would one of selling corn freely to all comers. Price limitations on resale of the emergency reserves, as at "not less than 105 (or 100) percent of parity," might also be prescribed.

Additional stocks (beyond both "pipeline" and emergency reserve needs) would be carried, some in private hands and some under loan or in CCC ownership. These supplementary stocks could flow into or out of CCC loans or inventories under the conditions specified in present legislation.

Such stocks, private and CCC, averaging perhaps 150 to 200 million bushels, should take care of fluctuations in corn production within the more usual range—that is, within 300 million bushels of normal. If an emergency reserve were maintained, there would be little reason for carrying usable supplementary stocks of more than 300 million bushels (plus minimum "pipeline" stocks of 150 million bushels).

The policy just described would lead to total stocks of 350 to 700 million bushels in most years, or a normal level of perhaps 500 to 550 million bushels.

7. Even this policy could involve some net losses to the price-support agency, given continued peace and a stable general price level. For the release of CCC stocks under short-crop conditions would usually prevent extreme price increases, so that the price advance on CCC emergency stocks would probably not cover (in full) the average cost of carrying them between successive low-yield years.

It is significant that, in the absence of price-support programs, year-end stocks of corn in private hands have never exceeded 400 million bushels. When a more complex approach is applied to free market price fluctuations (see the following study, A New Approach to Storage Policy), it appears that no larger stocks than this would be justified on the basis of strict profit-and-loss considerations by private operators.

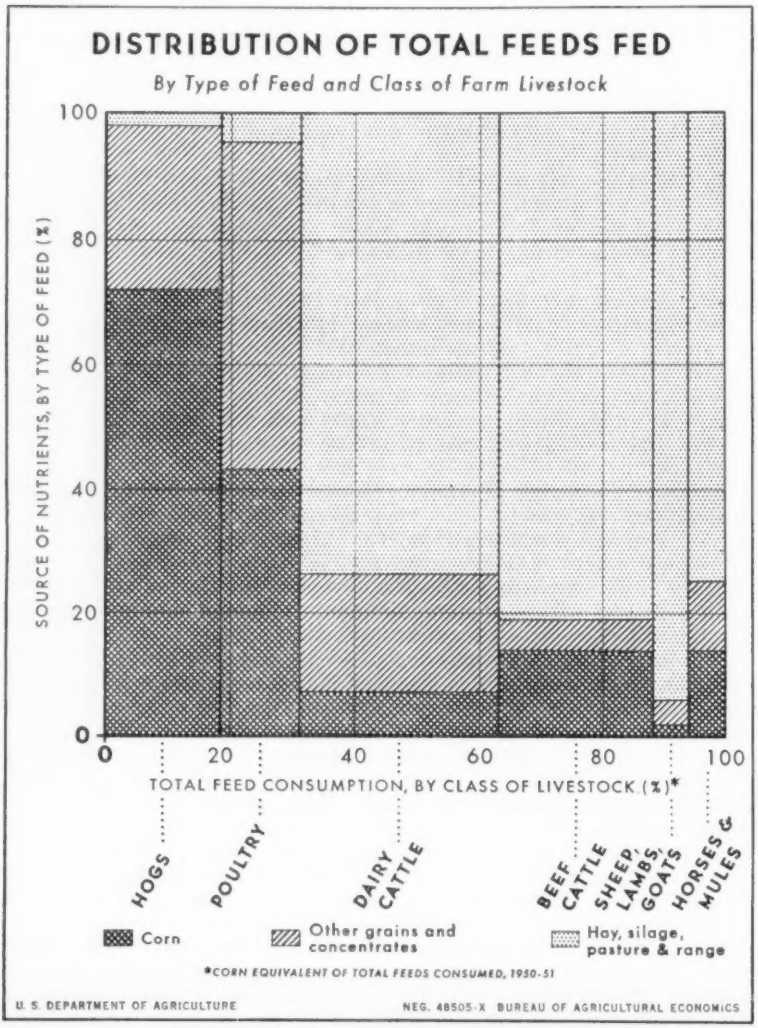
Government storage operations reduce corn price fluctuations and decrease the opportunities for "speculative" gains on either private or Government-owned corn stocks. Hence, any positive storage policy on the part of Government may involve some net costs to the Treasury. These potential costs may be set off against the benefits to farmers and others of averting extreme hardship and increasing the stability of feed costs and livestock production.

8. A brief note on the relation of feed grain supplies to livestock production may be helpful. Figure 3 illustrates the relative dependence of different classes of livestock on (*a*) corn, (*b*) other feed grains and byproduct feeds, and (*c*) hay, range and pasture.

In 1950–51, corn accounted for 26 percent of the total feed intake of all livestock. Other grains accounted for 10 percent, and byproduct feeds for another 10 percent. These three groups of "feed concentrates" made up 46 percent of the total feed intake. Hay, silage, range and pasture made up the remaining 54 percent.

Over the years there has been considerable association between changes in corn production and changes in production of other feed grains, but this relationship has been by no means uniform. Aggregate supplies of byproduct feeds, such as wheat millfeeds, oilseed meals, hominy and corn-gluten feeds, are relatively stable from year to year. Production of hay for the Nation as a whole shows very little association with production of feed grains on a year-to-year

basis, although a severe drought in a particular area may reduce both hay and feed-grain production at the same time. Except in extreme years, there seems to be little association on a national basis between year-to-year changes in the production of feed grains and in the quantity of feed obtained from range and pasture during the corresponding October–September feeding years, especially since much of the feed from pastures comes in the next growing season. But this is not always true for particular areas. During the extreme drought years, large areas in the Great Plains suffered a disastrous reduction in range feed as well as in supplies of hay and grain.



When we look at corn and other feed grains in the framework of total feed supplies, we can understand how livestock production in the aggregate was fairly well maintained even during the 1934–36 drought period. The reduction of roughly 40 percent in corn production between 1933 and 1934 meant in itself only a 10-percent reduction in the total supply of feed. The fact that other feed grains, hay, and even grass in certain areas were also affected gave the 1934 drought its particularly severe character. Further, a 10-percent reduction in total feed fed to livestock would ordinarily mean something less than a 10-percent reduction in the output of livestock products, as some efficiencies are possible when feed supplies are very short.

Hog production is more sharply affected by changes in corn supplies than is production of other classes of livestock. Cattle and turkey production also show significant changes in response to variations in corn and other feed concentrate supplies. Production of milk, eggs, chickens, broilers, and sheep and lambs has been little affected by year to year changes in feed concentrate supplies. However, the profitableness of dairy and poultry operations, particularly in the East and on the Pacific coast, may be sharply influenced by the changes in feed prices which are associated with fluctuating feed concentrate supplies.

Stocks needed to offset variations in the demand for feed grains

1. In most years, some 90 percent of the corn crop is fed to domestic livestock. A still higher percentage of our livestock output is consumed domestically, and its retail value moves very closely with changes in the total income of United States consumers.

During 1926–37, year-to-year changes in consumer income averaged a little less than half as large percentagewise as changes in corn production. If changes in the 2 factors had been uncorrelated, the combined effect of the 2 upon corn prices could have been offset with storage operations only about 10 percent larger than those needed to offset production variations alone. Actual analysis of year-to-year changes during 1919–41 indicates that less than a 10-percent "overrun" would have been needed to cover demand in addition to supply variations. However, this conclusion does not take account of the cumulative swings in consumer income over a period of years, as from 1929 to 1932 and 1932 to 1937.

In appraising possible future corn-storage programs, we have reason to assume that variations in corn production will continue much as in the past. However, variations in consumer income are influenced by human action and are basically subject to human control. If we are successful in maintaining a high and fairly stable level of employment, as we have done during the past several years, peacetime variations in demand will have little impact on corn-storage and price-support programs.

2. But this does not apply to possible demand impacts in time of war. World War II brought a tremendous increase in employment and consumer income. This in itself meant an unprecedented level of demand for livestock products. The fixing of retail prices meant that increased money income was translated into an effective demand for increased quantities of livestock products. Per capita consumption of pork, chicken, turkey, eggs, and fluid milk and cream increased by 20 to 50 percent from 1935–39 to 1944. Per capita supplies of

beef, lamb, cheese, evaporated milk, and, above all, butter available to civilians were at or below prewar levels and were considerably short of demand at ceiling prices.

Superimposed on this expanded civilian demand were heavy requirements for our Armed Forces and our allies. These special war requirements in 1944 took meat equivalent to 30 percent of the total amount consumed by United States civilians; also, dairy products equivalent to 18 percent, eggs to 35 percent, and poultry meat to 15 percent of total civilian consumption.

To meet these vastly increased requirements, farmers succeeded in expanding livestock production by 38 percent over the 1935–39 level. Feed concentrates fed to livestock in the 1943–44 feeding year totaled 48 percent greater than the 1935–39 average. This increase reflects in part the low consumption following the drought years. The quantity of corn fed to livestock was up 45 percent, from 2.0 to 2.9 billion bushels. This was based, of course, on a similar expansion in corn production.

3. The years since World War II have been characterized by high employment and a per capita consumption of livestock products well above the prewar level. In case of war, civilian demand would not expand nearly so much from present levels as it did from the lower levels of 1935–39 which were influenced by the depression and the drought years. But military and lend-lease-type requirements might be just as high as in World War II. The following comparison may give some insight into wartime demands for grain. (Wheat and corn requirements are treated as a combined total, since the increase in wheat utilization during World War II was due almost wholly to its increased use for feed.)

(*a*) During 1941–45, utilization of wheat and corn by the United States (domestic disappearance plus net exports) averaged a little over 4.0 billion bushels per year, compared with only 3.2 billion during 1938–40. (The increased utilization of wheat was almost exclusively for feed, and included sizable imports from Canada.) This rate of utilization was not sufficient to satisfy all demands; some major livestock products were rationed during most of this period and at times the upward pressure on price ceilings was considerable.

(*b*) United States population on July 1, 1953, was 19.5 percent larger than on July 1, 1941. To achieve the same per capita utilization of corn and wheat during 1953–57 as in 1941–45 would require a total utilization of 4.8 billion bushels per year.

(*c*) At current normal yields and 1953 planted acreages of wheat and corn, our expected production would be 4.3 to 4.4 billion bushels per year. This is 0.4 to 0.5 billion bushels a year short of meeting the World War II per capita rates of grain utilization. Over a 4-year period of war the expected cumulative shortage relative to World War II utilization patterns would be 1.6 to 2.0 billion bushels. The 1953 carryovers of wheat and corn, totaling over 1.3 billion bushels, exceed minimum working stocks by about 1.1 billion bushels. Thus, even the current stocks would not fully assure our ability to meet World War II per capita utilization rates during a war of similar magnitude and duration.

(*d*) Surplus Canadian grain might supplement grain supplies in this country during a national emergency. The productive capacity of wheat, oats, and barley in Canada is at a high level, and Canadian supplies of these grains are currently much above average.

During the 4-year period beginning July 1942, the United States imported a total of 12 million tons of grains for feed use, almost entirely from Canada. These imports were equivalent to 0.4 billion bushels of corn.

(*c*) If ample supplies of fertilizer were available during an emergency, production of feed grains in the United States might be expanded. But weather is always uncertain and supplies of nitrogen fertilizer might be limited by military requirements.

4. If a war pattern similar to that of World War II were repeated, stocks of wheat and corn at 1953 or expected 1954 levels would be welcome indeed. But this would not necessarily justify us in carrying stocks of this size year after year unless all-out-war was considered imminent. Annual storage, handling, and interest charges on the Government-owned portion of such stocks might run to something like $200 million a year. If this cost is regarded as an insurance premium, it should be weighed against (*a*) the extent of injury to the overall mobilization effort attributable to feed grain shortages of various amounts and (*b*) the probability of war breaking out in any given future year.

5. It is hard to apply economic reasoning to questions of national security. But in this case it seems likely that our Armed Forces (and perhaps those of our allies) would obtain sufficient livestock products for full military efficiency. The chief impact of feed and livestock shortages would be upon the convenience, morale, productive efficiency, and, in extreme cases, the health of United States civilians.

It seems reasonable to expect that the total effective demand (military and civilian) for grain-consuming livestock products at present prices would expand as much as 15 percent in the event of an all-out war. In this case, the free market price which would be offered for a specified total supply of corn would likely be 30 percent, or 40 to 50 cents a bushel, higher than would be paid for the same quantity under current conditions.

Finally, if the authorities responsible for national defense were to attach odds or "probabilities" to the chance of a major war breaking out in any one of the next few years, it would be possible to make a cost-and-benefit calculation along the following lines:

(*a*) If a war (of indefinite length) should break out in year X, corn would be worth 40 to 50 cents a bushel more than in peacetime during that year and a number of following years.

(*b*) If the chance of such a war beginning in any specified year X were rated at 1 in 5, the expected value of the advance in corn prices in year X would be 8 to 10 cents a bushel. If the odds were considered to be the same in each successive year 1954 through, say, 1960, the effect on the profitability of storage operations and the economic size of carryover would be similar to that of a reduction of 8 to 10 cents a year in storage and interest charges per bushel of corn.

When the odds and expected wartime price increases mentioned above were superimposed on the approach described in the following study, the average or equilibrium level of carryover was increased on the order of 300 to 400 million bushels. If the chances of war were considered less than 1 in 5, or if the duration of war (if it occurred) were estimated at less than 3 or 4 years, the allowance for war contingencies would be reduced, possibly falling as low as 200 million bushels.

6. The foregoing discussion may seem artificial and theoretical even to many economists. But defense planning is necessarily full of uncertainties. In planning for any uncertain future hazard (war, drought, flood, or whatever) it seems reasonable to ask the following questions:

(*a*) How much damage would it do?

(*b*) How likely is it to happen?

(*c*) In view of the answers to these two questions, how much would it be worth to limit (or compensate for) the potential damage to any given extent?

These considerations are implicit in any decision about feed grain reserves. There is, of course, an additional argument for carrying defense reserves of feed grains, namely, that preparedness in this as in other fields may help to deter aggression.

Reserves of corn and total feed grains in relation to all costs and contingencies

1. It has been suggested that usable reserves averaging around 200 million bushels of corn, plus minimum pipeline stocks of 150 million bushels of corn and an equivalent amount of other feed grains, would adequately offset peacetime variations in corn production which stayed within 300 million bushels or so of the trend level. If only these contingencies were to be provided for, a corn carryover averaging about 300 to 350 million bushels would be sufficient.

2. To meet the more severe deficits in production of corn and total feed grains which have occurred on the average about once in 6 or 8 years, it was suggested that an emergency reserve of perhaps 200 to 250 million bushels of corn might be carried for use only in such years (or perhaps under resale price restrictions that would have about the same effect). If this were done, the total carryover in most years would be not less than 350 million bushels, and might typically be about 500 to 550 million bushels.

3. Finally, it was suggested that, on certain assumptions, a defense reserve ranging from 200 to as much as 400 million bushels of corn might be justified. It is readily apparent that some of these assumptions are quite arbitrary; however, alternative assumptions conceivably could be supplied by defense authorities.

4. As a practical matter, the reserves for defense and for low yield emergencies should probably be treated as a single pool. Either contingency would usually bring an increase in corn prices. If the hazards of war outbreak and drought in any given year are independent of one another (as seems likely), a combined reserve of 400 million bushels available for either purpose would be about as effective as separate reserves of 250 million for yield hazards and 300 million for defense. A combined reserve of 300 million bushels would be a little more effective than 2 separate reserves of 200 million bushels each.

5. This combination of policies would lead to a corn carryover of the following size and composition:

	Million bushels
Emergency reserves	300–400
Minimum pipeline stocks	150
Subtotal	450–550
Supplementary stocks	0–300
Total carryover	450–850

On this basis, a typical carryover during a period of normal yields would total 600 to 700 million bushels. Stocks would average considerably less than this for 1 to 3 years following a severe drought, and would, of course, be drawn down during a major defense emergency.

6. Although some elements underlying the above total carryover estimates are rather arbitrary, it seems clear that the Government should not, under present conditions, take actions calculated to reduce the total corn carryover below about 500 million bushels. Further, if the level of corn price support were about right to move an average crop into consumption, there would be little reason for alarm if corn stocks rose to 800 million bushels or so as a clear consequence of better-than-average weather.

If defense hazards should greatly diminish, the emergency reserve might be pared down to perhaps 200 to 250 million bushels, that is, to the suggested yield-contingency level.

7. If an emergency reserve, with more stringent limitations on resale than apply to present price-support stocks, were to be carried as a matter of public policy, it should probably be subtracted from the total carryover in calculating supply percentages and determining minimum levels of price support.

However, this provision would tend to maintain minimum loan rates under the 1949 act within 3 or 4 percent of the maximum (90 percent of parity), thereby removing most of the price flexibility now in this act. This would make the maximum level of support for corn an extremely important consideration, as this level would largely determine whether corn consumption could be balanced with average corn production without continuous use of acreage controls.

8. If some part of the current carryover of wheat were set aside as a reserve for feed, the requirements for corn would be correspondingly reduced. But if the wheat carryover were worked down to 400 million bushels or less through acreage restrictions and expanded exports, the feed-grain-reserve problem would be largely independent of the wheat situation, as was assumed in the preceding discussion.

A NEW APPROACH TO THE APPRAISAL OF ALTERNATIVE CARRYOVER POLICIES FOR CORN

1. During the past year (1952–53) a promising new approach to the appraisal of carryover policy has been developed. For any given set of assumptions (see below) this approach yields a simple storage rule which can be expressed as follows:

If the total supply of corn (production plus carryin) is S bushels, the carryout at the end of the year should be C bushels (read from a graph or table for the given value of total supply).

2. To derive a storage rule, we must take account of the following elements:

(*a*) The likelihood of corn yields in any given year being above or below average by stated amounts. In practice, this is based on an analysis of actual corn yields during 1901–50, adjusted for trend and centered near the current trend level of corn yields (see table 1).

(*b*) The yearly out-of-pocket cost of storing a bushel of corn.

(*c*) The interest rate (actual or imputed) on working capital tied up in the stored corn.

(*d*) A schedule of benefits or losses resulting from different rates of corn utilization. In a completely free market economy, the appropriate schedule might be simply the market demand curve—a schedule of the market prices which would result from different levels of corn supplies.

TABLE 1.—*Corn: Frequency distributions of variations in yield and production*

Deviations from trend yield [1] (1)	Percent frequency (2)	Equivalent deviations in production (million bushels) [2] (3)
Bushels per planted acre: Total	100	
−11.9 to −9.0	6	−1,019 to −765.
−8.9 to −6.0	2	−764 to −510.
−5.9 to −3.0	8	−509 to −255.
−2.9 to 0	23	−254 to 0.
0 to 2.9	45	0 to 254.
3.0 to 5.9	14	255 to 509.
6.0 to 8.9	2	510 to 764.

[1] Average of (1) deviations of actual yields from 9-year moving averages, centered, and (2) the corresponding percentage deviations applied to the 1952 goal yield of 37.9 bushels per planted acre.
[2] Assuming 85 million planted acres.

3. If the approach seems complex, it is no more complex than the considerations confronting any storage operator. Before storing corn from a big crop at a price of (say) $1.40, the operator would presumably ask himself, "What are the chances that the market a year from now will be $1.55 or higher? Or that the market two years from now will be $1.70 or higher?"

Furthermore, in a sense any year-to-year storage program works against itself. For example, the average farm price for the large 1946 corn crop was $1.56 per bushel, while that for the short 1947 crop was $2.16. It would certainly have been profitable to carry some corn over from 1 year to the other. But how much?

Corn utilization was 3.1 billion bushels in 1946 and only 2.5 billion in 1947. But if 0.2 billion bushels had been transferred from the first year to the second through storage the price in 1946 (based on past relationships) would have risen 15 to 20 cents and that in 1947 would have fallen 25 to 35 cents. The resulting price rise from 1946 (with utilization now at 2.9 billion bushels) to 1947 (with utilization now at 2.7 billion) would have been just about enough to cover storage and interest charges.

4. The following table shows several alternative storage rules derived by the above approach. All 4 columns assume a stable level of demand such that 3.2 billion bushels of corn would clear the market at $1.50 per bushel. In the first 3 columns, out-of-pocket storage costs are assumed to be 10 cents a bushel and interest charges 5.2 percent (i. e., a discount rate of 5 percent):

[Million bushels]

If total supply of corn (production plus carryin stocks) is—	Carry-out at year end should be			
	Under free market policy (1)	Under high stock policy (2)	Under moderate stock policy (3)	Under moderate stock policy disregarding interest charges (4)
4,400	690	1,040	880	990
4,000	440	780	600	720
3,600	200	510	370	450
3,200	150	260	180	190
2,800	150	150	150	150

The first column looks at storage prospects from the viewpoint of a private operator who needed, on the average, to more than cover his storage costs by reselling corn to the market. (In fact, this rule probably understates the volume of storage which would be profitable, as it assumes a somewhat more elastic market demand curve than may actually exist.)

With corn supply at the 1953 level (about 4.0 billion bushels), the free market storage policy would reduce the year-end carryover to 500 million bushels or less, forcing a corn-utilization rate of 3.5 billion bushels compared with about 3.0 in the 1952–53 crop year. With a corn crop of, say, 3.1 billion bushels in 1954, plus the assumed carryin of 0.5 billion bushels, the free-market policy would carry out only 200 million bushels at the end of the 1954–55 marketing year—only a little more than minimum working stocks.

The differences between columns (1), (2), and (3) may be expressed as follows:

In a severe drought year, such as 1934, 1936, or 1947, the market price of corn seldom reaches as much as twice the price level of an average crop. But some economists feel that this rise in the market price of corn does not reflect the full extent of the harm or social costs resulting from a drought, some of which might have been averted had additional corn been available from storage. It is hard to set a money value on these other costs, but unless this is done, we have no basis for deciding whether a storage program specifically designed for drought emergencies is really worth the 10 years or more of storage costs that might accrue before such a drought occurred. And the first 100 million bushels of corn in such an emergency would cover more urgent needs, and have greater per bushel value, than would a second or third hundred million.

Columns (2) and (3) reflect different arbitrary assumptions as to what such social costs might be. The nature of these assumptions may be indicated as follows:

If the amount of corn available for current consumption were—	The value of an extra million bushels or so would be rated at—		
	Under free market policy (1)	Under high stock policy (2)	Under moderate stock policy (3)
	Per bushel	*Per bushel*	*Per bushel*
2,000 million bushels	$3.10	$27.50	$6.20
2,500 million bushels	2.20	7.00	3.20
3,000 million bushels	1.70	2.30	1.90
3,200 million bushels	1.50	1.50	1.50
3,500 million bushels	1.30	.85	1.15

Column (1) represents approximately the market prices of corn which would be expected under the given supply conditions. But columns (2) and (3) represent values which might be assigned, explicitly or implicitly, by an administrator trying to allow for additional storage benefits not reflected in the market place.

If this administrator set a very high value on stability of feed supplies, as in column (2), he would rate the social gain of withholding a bushel of corn from a 3.5 billion bushel crop and adding it to a 3.0 billion bushel crop at $1.45 per bushel ($2.30 minus $0.85)—enough to cover several years' storage costs. If he set a more moderate value on stability, as in column (3), he would rate the gain on this transaction at $0.75 per bushel ($1.90 minus $1.15)—sufficient to cover storage and interest charges (at 5 percent) for only 4 years. But the market place itself would return only $0.40 per bushel on this transaction ($1.70 minus $1.30) which would cover storage and interest charges for only a couple of years.

Obviously, larger stocks will be carried under the value scale of column (2) than under those of column (3) or column (1). Feed utilization would be almost completely stabilized under the high stock policy, and so would market prices. But this very fact would reduce the extent to which storage costs might be recovered as a result of market-price advances. This would further limit the profit possibilities for private-storage operations and transfer almost the entire storage load (except for pipeline stocks) to Government.

5. Table 2 summarizes the average levels and ranges of carryover stocks and prices resulting from different storage rules over a synthetic 25-year period. The carry-in at the beginning of the period is set at 1,000 million bushels in each case—a little above the level now anticipated as of October 1, 1954. Demand is assumed stable at such a level that an average crop of 3.2 billion bushels will clear the market at $1.50 per bushel in all years. Then a series of 25 annual corn crops is assumed, based on actual variations in corn yields from 1937 through 1950, with the 1937–47 sequence repeated to provide the last 11 years. Actual yields were adjusted for trends resulting from use of hybrid seed and other improvements. Finally, a pipeline stock level of 150 million bushels was assumed as the minimum carryover under any circumstance.

TABLE 2.—*Corn: Summary of carryover stocks and market prices resulting from alternative storage policies over a (hypothetical) 25-year period*

Nature of policy	Carryover stocks			Market prices		
	Average level	Range		Average level	Range	
		Low	High		Low	High
	(1)	(2)	(3)	(4)	(5)	(6)
	Million bushels	*Million bushels*	*Million bushels*	*Per bushel*	*Per bushel*	*Per bushel*
1. Free-market policy	183	150	388	$1.51	$1.15	$2.37
2. High-stock policy	564	150	958	1.47	1.30	1.80
3. Moderate stock policy	306	150	592	1.49	1.25	2.16
4. Implications of moderate stock policy if interest charges are disregarded	431	150	830	1.48	1.28	2.04

The "free market" policy applied to this sequence yields a maximum carryover of 388 million bushels (following the record 1948 corn crop) and an average level of 183 million bushels. (Interestingly enough, the highest corn carryover ever attained in the days before government price support and storage programs was 387 million bushels, and the average stock level during 1922–29 was around 175 million bushels.) Estimated market prices ranged from a high of $2.37 per bushel, corresponding to the short 1947 crop, to a low of $1.15, corresponding to the record crop of 1948.

The high stock policy yields average stocks of 564 million bushels and a maximum of 958 million. The 1947 corn crop would have reduced stocks to a minimum working level, but the market price would not have risen above $1.80, compared with $2.37 under the free market policy. The minimum price (corresponding to 1948) would have been $1.30.

The moderate stock policy yields a maximum carryover of 592 million bushels, and an average level of 306 million. Prices range from $2.16 down to $1.25.

If interest charges (first assumed at 5.2 percent) were disregarded, however, the moderate stock policy would lead to a maximum carryover of 830 million bushels, and an average level of 431 million. An interest rate of 2½ percent should give intermediate results—a maximum carryover of about 700 million bushels and an average level of 350 to 400 million.

The effects of other assumptions could be inferred roughly on the basis of the results already stated. It appears, for example, that a combination of interest rates at 2½ percent and out-of-pocket storage costs of 5 cents a year would lead to maximum stocks of about 900 million bushels and average stocks of around 500 million.

6. It should be noted that, under stable demand conditions, any given storage rule corresponds to a certain price support policy as well. A high stock policy corresponds to a rather rigid price support policy. Table 2 indicates that, under the policy which leads to the highest stocks, the lowest season average price reached during the 25-year period is only 17 cents a bushel below average. The moderate stock policy permits a minimum price 24 cents below the average, while the free market policy permits prices as much as 36 cents below aver-

age. These ranges are equivalent to 11, 15, and 22½ percent, respectively, of the new parity price for corn. The smallest of these ranges could very well occur with loan rates set constantly at 90 percent of new parity, but with the market price ranging above supports in some years and sagging below it in years of large crops.

7. The numerical results given in this supplement do not reflect all the contingencies that might arise, or the objectives that might be set, under a real storage program:

(*a*) No specific weight is given to the value of reserve stocks in case of war. (Subsequent calculations suggested that the average level of stocks might be increased by from 200 million to as much as 400 million bushels if a serious threat of war were assumed.)

(*b*) No allowance is made for the use of acreage allotments on corn as a possible means of keeping down, or working off, maximum carryovers under programs involving high average stocks.

(*c*) No allowance is made for fluctuations in final demand. Serious business recessions would alter the results; how much is, at this stage, not known.

(*d*) No allowance is made for the possible use of wheat, acquired under the price-support program for that grain, to supplement corn supplies under emergency conditions.

This basic approach could, however, be extended to take account of all or most of these factors, given specific analyses or assumptions concerning each of them.[8]

[8] The basic approach outlined in this supplement was developed during 1952–53 by Robert L. Gustafson, University of Chicago, working under an RMA contract with the United States Department of Agriculture. The several "storage rules" illustrated were also derived by Mr. Gustafson.

The application of these rules to specific yield sequences was made in the Department of Agriculture.

II. PROBLEMS CREATED BY ACREAGE RESTRICTIONS ON BASIC CROPS

Introductory Note

Marketing quotas and acreage allotments for the six basic crops are a prominent aspect of existing price support legislation. However, due to heavy war and postwar demands, corn, wheat, and cotton had been free from acreage restrictions most of the time from 1943 through 1953. Marketing quotas were applied quite severely on cotton in 1950, and acreage allotments were announced for wheat and corn in the same year. But the 1951, 1952, and 1953 crops were free from such controls.

Bumper crops of all three commodities in 1952 coincided with a sharp drop in exports. However, no action was taken to restrict acreages for the 1953 crops. In the summer of 1953, it became clear that marketing quotas would be required under law for the 1954 crops of wheat and cotton, and that acreage allotments would likely be necessary in the case of corn. Even though the minimum national acreage allotment for wheat was raised from 55 to 62 million acres (for the 1954 crop only), it appeared that as much as 30 million acres would have to be diverted from production of wheat, corn, and cotton in 1954.

However, it was generally recognized that much of the diverted acreage would be planted to other crops unless some limitation were imposed upon its use. Producers of many crops which were not being supported, or which were not in surplus difficulties, saw a serious threat in the uncontrolled use of diverted acres.

At its September 3–5 meeting, the National Agricultural Advisory Commission requested a basic study on alternative ways of dealing with problems created by the diversion of acreage from wheat, cotton, and corn. This study is the first item in the present section. At its next meeting, the Commission tentatively concluded that a combination of two of the alternatives listed in this study offered the most promising approach to dealing with the diverted acres problem. The study entitled "Further Analysis of Selected Methods" was done during early November 1953.

Special legislation on cotton was approved on January 30, 1954, raising the 1954 national acreage allotment to 21.4 million acres. This makes certain of the figures in this section obsolete if regarded as forecasts of what will actually happen in 1954. However, it seems likely that fairly tight acreage allotments will also be needed in 1955. The estimates in this section are still useful as illustrations of the nature and general magnitude of the diverted acres problem still facing us. In the absence of use limitations, it is likely that there would be even fewer idle acres, and a somewhat larger total production from the diverted acres, in 1955 than in 1954.

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A. Alternative Ways of Dealing With Problems Created by the Acreage Diverted From Wheat, Cotton, and Corn[1]

STATEMENT OF THE PROBLEM

(*a*). *Wheat.*—A national wheat-acreage allotment of 62 million acres, coupled with the imposition of marketing quotas, has been announced applicable to the 1954 crop of wheat. An allotment of this kind would require a reduction of about 16.5 million acres from the 78.5 million acres planted in 1953. Such an allotment could be expected to produce a sufficient quantity of wheat to meet all domestic and export demands. Consequently little net change can be expected by June 30, 1955, in the size of the wheat carryover of June 30, 1954 now estimated at about 760 million bushels.

(*b*) *Corn.*—Carryover stocks of corn on October 1, 1953, are close to 800 million bushels. On the basis of the currently estimated crop for 1953 the total supply will be about 4 billion bushels, a supply which approximates an all-time high. On the basis of anticipated disappearance during the current marketing season, carryover stocks on September 30, 1954 are likely to be upward of 900 million bushels. In order to reduce to a more desirable level it is likely that acreage allotments—but not marketing quotas—will be in effect for the 1954 crop. Thus, a reduction (in the commercial corn area) of from 5 to 6 million acres is likely for 1954 under the acreage-allotment program.

(*c*) *Cotton.*—The carryover of cotton on August 1, 1953, of about 5.5 million bales, when added to estimated current production, results in a supply for the 1953–54 marketing year of about 20.4 million bales, the largest since 1949–50. A supply of this size, in view of requirements, indicates that it will be necessary to proclaim a national marketing quota and a national acreage allotment for the 1954 crop. The minimum quota which may be proclaimed is 10 million bales, equivalent perhaps to a national acreage allotment of about 17.5 million acres, or a decrease of more than 7 million from the 1953 crop of 24.6 million acres.[2]

(*d*) *Summary.*—It appears, therefore, that the 1954 acreage which might be planted to wheat, corn, and cotton may be roughly 30 million acres less than the acreage planted to these crops in 1953. This acreage, referred to as diverted acres, may give rise to serious problems if no steps are taken to channel it properly. How will production of other crops be affected by the use of this acreage, assuming no steps are taken to restrict its use? To what extent are other price support programs likely to be affected? This report: (1) Attempts a quantitative approximation of the uses to which this diverted acreage may be put assuming no particular effort or step is taken to control it, and (2) sets forth alternative programs which might be adopted as a measure of control.

The report does not make recommendations; rather it discusses alternative programs in terms of their merits and weaknesses. Certain conclusions may be drawn in the light of this discussion, in consideration of costs, existing legal authority, time available, and producer attitude. Actions which may have merit for years following 1954 may not be feasible for serious consideration in 1954.

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[1] Prepared in September–October 1953.

[2] Early in 1954 the national acreage allotment for the 1954 crop was increased to 21.4 million acres.

REVIEW OF PREVIOUS EXPERIENCE WITH DIVERTED ACRES

Base acreage and allotment programs

Programs designed to prevent diverted acres from being used for the production of most other crops, thus creating additional surpluses, were in effect from 1933 through 1943. In general, these programs were aimed at preventing producers from increasing the acreage of crops which were likely to be in surplus and to encourage producers to use such land for conserving, soil improvement or erosion preventing purposes. A general description of these programs as affecting diverted acres follows.

1. *For the 1933–35 period.*—During this 3-year period voluntary production adjustment contracts were made with producers for diverting acres from the production of basic crops. Rental and benefit payments were made to any producer who complied with the contract. The producer agreed that the diverted acres would not be used for the production of any nationally produced agricultural product for sale. The Department specified the uses to which the land could be put which included soil improving and erosion preventing crops, home food and feed. However, these restrictions were modified in 1934, 1935, and 1936, because of the feed shortage resulting from the drought, by permitting farmers to use the acreage for the production of emergency forage crops.

The acres diverted, the payments and the commodities for which contracts were in effect were as follows:

Commodities	Year	Acreage diverted	Total payments
		Million acres	*Million dollars*
Cotton, wheat	1933	10.5	277
Corn, wheat, cotton, tobacco, sugar beets, and sugarcane	1934	35.8	637
Corn and hogs, wheat, cotton, tobacco, rice, peanuts, sugar beets, and sugarcane	1935	30.3	467

The total rental and benefit payments for this 3-year period of about $1.4 billion were equal to 7.3 percent of the national cash farm income and about 18.2 percent of the farm income from the commodities for which such program was in effect.

Since the program was primarily to raise farm prices by diverting acres out of crops in surplus, little attention was given to the use of such diverted acres except in those cases where the production on the diverted acres reached the market, in which case payments were withheld when the facts were reported and substantiated. No records were kept as to how the acres were used but estimates made for several Corn Belt States indicated that about one-third of the diverted acres were seeded to hay and pasture, one-third planted to emergency forage crops, one-fourth left unplowed in old pastures, and one-twelfth left fallow or idle. Estimates for five Cotton States indicate that approximately three-fourths of the diverted acres were planted to home food and home feed crops, about one-tenth seeded to permanent pasture, and one-eighth planted to green manure crops. In 1933 the cotton program was a plow-up which came too late for using the land for other purposes.

2. *For the 1936–37 period.*—By 1935 it became apparent that besides crop adjustment there should be greatly increased emphasis on conservation to preserve and improve the soil fertility. Therefore, beginning in 1936 all crops were classified as either: (*a*) Depleting, (*b*) conserving, or (*c*) neutral. Base acreages of "special", "general", and "conserving" crops were established on each farm. Two types of payments were made to cooperating producers: (1) Soil conserving of diversion payments for shifting acres out of depleting crops similar to 1933–35, and (2) soil-building payments for carrying out soil-building practices. The diversion payment for diverting from a basic or special depleting crop was at a rate per unit of the normal yield on the acres diverted for payment and all other (general) depleting crops at a rate per acre based on a production index established for each farm. In 1936 the per acre rate for diverting from the general soil-depleting base to a conserving crop averaged $10 and in 1937, $6.60, plus an additional $3.30 per acre for each acre devoted to a conserving crop in excess of the conserving base. (In some areas this diversion payment was $9.90 per acre with a deduction of $3.30 per acre for each acre below the conserving base. The conserving base included the acres diverted for payment from soil-depleting crops.) In addition, deductions were made if the special crop bases for such crops were exceeded. Specific limitations were placed on the acres that could be diverted for payment and the amount of soil-building payments that could be earned.

Approximately 31 million acres were diverted in each of these years, with payments made on about 26 million acres (18.1 general, 7.8 cotton, 0.3 peanuts, and 0.1 tobacco). Soil-building practices were carried out on about 50 million acres. The diversion payment represented 84 percent of the total payment in 1936 and about 71 percent in 1937. The total payments for diversion-and soil-building practices were about $374 million in 1936 and about $308 million in 1937.

The 1937 acreages for which special bases or limits were established (cotton, corn in the commercial area, tobacco, peanuts for nuts, and general crops) were in excess of desired levels. The actual seeded acreage for all depleting crops was about 30 million acres in excess of the 1937 goals. Cotton acreage was about 2 million acres larger than the goal.

3. *For the 1938–43 period.*—The 1936 and 1937 experience indicated that some means must be found to deal more adequately with the production of surplus crops. Beginning with 1938 allotments and goals were established instead of bases, thus eliminating the identification of diverted acres. Conservation payments were made for planting within the allotment established, and a soil-building payment was made for carrying out desirable soil-building practices. Farm-acreage allotments were established during most of these years for cotton, wheat, tobacco, corn, potatoes, peanuts, rice, commercial vegetables, and general depleting crops. Goals were established for soil-building crops. By 1942 the general and total depleting crop allotments, and payments therefor, were dropped in all areas to provide producers with a greater opportunity for increasing their production of crops, such as soybeans, peanuts, and flax, needed for defense purposes.

The special, general, and total depleting allotments and the soil-building goals for each farm were established by county committees on the basis of such factors as good soil management, tillable acres, type of soil, past history, degree of erosion, size of farm, and home needs. Marketing quotas were put into effect for 1938 for cotton and for flue-cured, Burley, and dark tobaccos. Conservation payments for planting within the special crop allotment were made on the basis of the normal yield of the allotted acres and varied by years and by crops depending to some extent on the relationship between the allotment and the normal acreage. The average conservation payment for planting within the general soil depleting allotment varied from a high of $1.25 per acre in 1938 to a low of 99 cents per acre in 1940 for each acre in the allotment (no payments made in 1942 and 1943 for general crops). Deductions from the maximum payment that could be earned were made for planting in excess of the special crop allotments, and for planting in excess of the total soil-depleting goal, at rates of from 2 to 10 times the payment rate. Deductions also were made for failure to carry out soil-building practices equal to the soil-building goal and for failure to carry out conservation measures.

As a further condition of price support in 1941 for rice, corn, and wheat, and in 1942 for corn, wheat and cotton, a producer was limited to: (1) Planting an acreage of wheat not in excess of the wheat acreage allotment for the farm, (2) restricting the aggregate acreage of wheat and other basic commodities to the sum of the allotments or permitted acreages for such crops under the 1941 agricultural conservation program, (3) keeping his aggregate share of the 1941 acreages of wheat and other basic commodities on all farms in the community within his aggregate share of the allotments or permitted acreages for such crops under the 1941 agricultural conservation program on such farms, and (4) keeping his aggregate share of the 1941 acreage of wheat and other basic commodities on all farms in which he has an interest, wherever situated, within the producer's aggregate share of the allotments or permitted acreages for such commodities under the 1941 agricultural conservation program for such farms.

As a further condition of price support in 1943 for wheat, corn, and tobacco, a producer was required to plant at least 90 percent of his farm war-crop goal. A similar requirement was in effect for some of the Steagall commodities, for example, soybeans.

In 1939 wheat farmers who complied with the program earned a wheat conservation payment of 17 cents per bushel and a parity payment of 11 cents per bushel on the normal yield of their allotted acres, and were eligible for a crop loan averaging 63 cents per bushel. Thus, in 1939 a wheat grower was assured of not less than 91 cents per bushel as compared to the parity price of $1.09 per bushel. Corresponding payments for corn were 9 cents per bushel for conservation, 6 cents per bushel for parity with a crop loan averaging 57 cents per bushel. The parity price of corn was 79.6 cents per bushel. With respect to cotton the conservation payment was 2.0 cents per pound and the parity payment 1.6 cents per pound, with the loan averaging 8.7 cents per pound. The parity price of cotton was 15.13 cents per pound.

In 1938 about 75 percent of the total payments of $444 million were conservation payments, made for complying with acreage allotments.

In 1943 about 50 percent of the total payments of $438 million represented conservation payments.

An analysis of the programs during the 1939–43 period indicates that they were much more successful than those in effect prior to 1938, both from the standpoint of obtaining the desired adjustment in acreage and in carrying out soil-building practices. The average acreage of wheat, corn, and cotton for the 1939–43 period was about 39 million acres below the 1937 acreage. In general, for each of these years the acreage devoted to each basic crop for which allotments were established was about equal to the national allotments. The acreage of feed grains other than corn (rye, barley, oats, and grain sorghums) averaged about 10 million acres above the 1937 level. The acreage of soybeans, peanuts, and flaxseed—for which increases were requested—rose about 9 million acres, and that of hay increased about 7 million acres. During this 5-year period payments were made for new seedings of permanant pasture on about 15 million acres.

4. *For the period since 1943.*—Beginning with 1944 all allotments were dropped, except for certain types of tobacco. Producers were requested to expand the acreage of nearly all depleting crops and payments were made only for carrying out soil-building practices.

In 1948 and 1949 allotments were again in effect for peanuts and potatoes, and in 1950 they were in effect for all basic crops. However, no restrictions were placed on the use of the acres diverted. In the case of 1950 crop cotton, however, as a condition of price support, a producer's aggregate planted acreage of cotton could not exceed his aggregate share of the 1950 cotton allotments on all farms in which he had an interest. A somewhat similar provision was in effect for peanuts.

The agricultural conservation program

It is generally felt that programs for influencing the use of diverted acres should also contribute to soil-building and conservation objectives. A description of the current agricultural conservation program (hereafter referred to as ACP) may suggest some of the possibilities and problems in this area.

1. *Description of the agricultural conservation program for 1954.*—The ACP is an annual program which is authorized by the Soil Conservation and Domestic Allotment Act and applicable appropriation acts. The appropriation limits the 1954 program to soil-building practices, and soil- and water-conserving practices. For 1954 the Congress has authorized $195 million for the program, including administration. After deducting from this amount, funds for administration and for size-of-payment adjustments (small payment increases), there remains $148,500,000 available for allocation to States and insular areas.

The fundamental purpose of the 1954 program is to provide a means by which the public can share with landowners and operators the cost of carrying out needed conservation work over and above that which they would do alone. This program is only one of the important elements of the Department's coordinated effort to help landowners and operators to attain soil-conservation objectives. The level of ACP cost-sharing is less than 50 percent of the cost of installing

the conservation measures; consequently, the farmer's individual investment exceeds that of the public.

The 1954 ACP differs from any previous year's program. For 1954 the principle is observed that Federal cost-sharing shall be offered for solving a conservation problem on a specific portion of the farm. This package approach differs from previous programs under which assistance was offered separately for each component part of the solution. This is an important change, in that public assistance will be available in 1954 only for the treatment of the total conservation problem. The 1954 program has been designed to encourage farmers to initiate and carry out soil- and water-conserving practices which will provide the maximum and most enduring conservation benefits. Assistance for many of the practices is available only for initiating the practice, and the farmer will be expected to continue and maintain such practice.

2. *Application of the 1954 program to the diverted acreage problem.*—The 1954 ACP provides practices which will encourage the use of land diverted from allotment crops for conserving uses, such as permanent vegetative cover or trees. The effectiveness of ACP practices in encouraging this change of land use will vary in different parts of the country. It appears, however, that if such a program is to be effective in encouraging the shift of as many acres as might be desirable from the standpoint of controlling diverted acres, it would be necessary to increase the level of ACP cost-sharing substantially from the 1954 maximum (which is 50 percent of the cost), and that substantially more funds would be required

In many cases the conversion of acreages diverted from allotment crops in 1954 to conserving crops should, from a long range viewpoint, be accompanied by a change to (or increase in) livestock farming. Many farmers do not have the knowledge or economic ability to make this change and for this reason any offer of assistance in establishing the vegetative cover would probably not result in such changes to the extent desirable.

Assistance under this phase of the 1954 ACP is only with respect to a portion (50 percent or less) of the cost of establishing the vegetative cover. Either an increase in this percentage of cost-sharing or an increase in the funds available for this use or both, would result in some increased conversion of diverted acres to conserving uses. However, when the cost of establishing permanent vegetative cover is as much as $30 to $40 per acre, it is evident that the present level of ACP assistance (considering both the percentage of cost-sharing and the total amount available) would not be a major factor in influencing the shift of an acreage of as much as 30 million acres diverted from allotment crops in 1954.

PROSPECTIVE USE OF DIVERTED ACREAGE IN 1954, WITH NO PLANNED PROGRAM

The following estimates are based on information available as of September 1953. As marketing quota and/or acreage allotment levels for the 1954 crops of cotton and corn have not been officially determined, it is necessary to assume such levels on the basis of unofficial interpretations of the existing law.

In estimating prospective uses of the diverted acres in 1954, actual experience in 1950 furnishes some valuable indications (see table 1). Based on this and other evidence, prospective shifts in acreage and production from 1953 to 1954 may be roughly as follows:

[In millions]

	Acreage [1]		Estimated shift, 1953 to 1954	
	1953	Estimated, 1954 [2]	Acreage	Production [3]
Cotton	24.6	[4] 16.5	[4] −8.1	−5.1
Wheat	78.6	61.8	−16.8	−273.4
Corn	81.8	78.1	−3.7	−195.5
Oats	43.8	48.7	+4.9	+137.7
Barley	9.5	12.9	+3.4	+60.9
Sorghums, all purposes	15.2	18.7	+3.5	+44.6
Rye	3.3	3.5	+.2	+1.8
Soybeans, grown alone	15.8	18.8	+3.0	+52.8
Flax	4.6	5.0	+.4	+3.9
Tame hay	60.5	63.1	+2.6	+3.6

[1] Planted, except for hay.
[2] Projected acreages as a result of corn, wheat, and cotton allotment programs at levels assumed in this analysis. Acreage shown for corn is net, resulting from a decrease of 5.5 million acres in the commercial corn area and an increase of 1.8 million acres in the noncommercial corn area.
[3] In bushels except for cotton in bales and hay in tons. Based on 1942-51 average yields by States in which diverted acres are located.
[4] Actual 1954 plantings of cotton may be as much as 3 million acres higher than this as a result of special legislation passed on Jan. 30, 1954.

Marketing quotas on cotton and wheat and acreage allotments on corn in 1954 at the assumed levels would result in the diversion of about 30.4 million acres to other uses. Of this diverted acreage, it is estimated that about 13.5 million acres will go into feed grains, about 3.4 million acres into oil seed crops, about 5 million acres into hay and pasture, and about 8 million acres will be left idle. (See tables 1 and 2.)

TABLE 1.—*United States crop acreages in 1953 and projected changes for 1954, with comparisons* [1]

[In thousands of acres]

Crop	1942–51 average	1949	1950	Change from 1949–50	1953	Prospective change from 1953–54 [2]
Cotton	22,029	27,719	18,629	−9,090	24,618	[3] −8,119
Wheat	70,584	83,905	71,287	−12,618	78,553	−16,845
Corn	88,024	86,745	82,858	−3,887	81,800	−3,665
Oats	43,953	43,318	45,464	+2,146	43,765	+4,874
Barley	13,487	11,132	13,100	+1,968	9,482	+3,353
Sorghums, all purposes	14,883	11,064	16,050	+4,986	15,222	+3,532
Rye	4,156	3,293	3,588	+295	3,334	+209
Soybeans grown alone	13,300	11,872	15,129	+3,257	15,781	+3,009
Flax	4,348	5,348	4,274	−1,074	4,618	+370
Tame hay	60,280	56,672	59,308	+2,636	60,527	+2,554
52 crops planted or grown	358,399	365,040	353,524	−11,516	359,674	

[1] Planted acreage, except for hay. Table prepared in September 1953.
[2] Estimated changes in acreage as a result of corn, wheat and cotton allotment programs at levels assumed in this analysis. The increased allotment for 1954 crop cotton, approved on Jan. 30, 1954, would limit the prospective reduction to perhaps 4 or 5 million acres. This would also reduce the increases shown for other crops. The figures are still broadly illustrative of the "diverted acres" problem which faces us over the next 2 or 3 years.

TABLE 2.—*Projected use of diverted acres, by regions, 1954* [1]

[In thousands of acres]

Item	Northeast	Lake States	Corn Belt	Appalachian [2]	Southeast [2]	Mississippi Delta [2]	Southern Plains [2]	Southwest [2]	Pacific Northwest	Northern Plains		United States
										Spring wheat	Winter wheat	
Total diverted acres	389	1,478	5,905	1,193	1,448	1,521	5,221	1,628	1,701	4,855	5,067	30,406
Acres diverted from—												
Wheat	266	579	1,966	476			2,244	336	1,701	4,855	4,422	16,845
Cotton [3]			164	717	1,448	1,521	2,977	1,292				8,119
Corn	123	899	3,775								645	5,442
Acres diverted to—												
Corn				200	441	325	680	35	5	91		1,777
Oats	111	309	2,399	270	115	125	500	75	230	250	490	4,874
Barley	110	285						583	350	1,125	900	3,353
Rye									20	100	89	209
Sorghums			25				2,450	197		125	735	3,532
Hay	60	231	688	150	130	150	570	135	75	195	170	2,554
Pasture	62	230	703	250	200	175	300	70	75	255	125	2,445
Soybeans	41	223	2,090	80	80	470					25	3,009
Flax		100						70		200		370
Other	5	100						99	20		10	234
Idle and fallow				243	482	276	721	364	926	2,514	2,523	8,049

Northeast: New York, Pennsylvania, New Jersey, Maryland, Delaware, and New England.
Lake States: Minnesota, Wisconsin, and Michigan.
Corn Belt: Ohio, Indiana, Illinois, Missouri, and Iowa.
Appalachian: Virginia, West Virginia, North Carolina, Tennessee, and Kentucky.
Southeast: South Carolina, Georgia, Florida, and Alabama.
Mississippi Delta: Arkansas, Louisiana, and Mississippi.
Southern Plains: Oklahoma and Texas.
Northern Plains: Spring wheat—North Dakota, South Dakota, and Montana; winter wheat—Nebraska, Kansas, Wyoming, and Colorado.
Southwest: New Mexico, Arizona, Utah, Nevada, and California.
Pacific Northwest: Idaho, Washington, and Oregon.

[1] Table prepared September 1953. Special legislation approved on Jan. 30, 1954, increased the 1954 crop cotton allotment by about 4 million acres over the level assumed here. Hence, acreage shifts in major cotton areas will be smaller than indicated.

Cotton production in 1954 is expected to be about 10 million bales, assuming a 17.5 million acre allotment, and as a result the carryover at the end of the 1954 marketing year may be reduced by 2 to 3 million bales.[3] The 62 million acre wheat allotment is expected to result in sufficient production to meet domestic and export demands with consequent little change in the large carryover. The shift of diverted acres into production of uncontrolled types of feed grains will likely result in a total feed production approximately equal to the expected 1953 crop. The effectiveness of acreage allotments on corn in 1954 in reducing total feed-grain supplies would be offset by increased production of corn in the noncommercial corn areas and the increased production of barely, oats, and grain sorghums. No reduction in total feed grain stocks appears likely in 1954–55. (See table 3.)

Oil seed and oil meal production may change relatively little in 1954 with reduction in cottonseed being offset by increased production of soybeans and some flaxseed (table 3). Oil cake and meal supplies should be about in balance with probable use but increased exports of oil seeds and vegetable oils will be necessary in 1954–55 to avoid further buildup of domestic oil stocks. Hay and pasture will also be more plentiful in 1954.

Regional shifts in land use

The following summarizes projected regional shifts, details of which are shown in table 2.

1. *Northern Plains.*—The impact of 1954 control programs will be most severe in this area where, compared with 1953, over 9 million acres are expected to be diverted from wheat and about 645,000 acres diverted from corn. Over half of this acreage is expected to be idle or fallow in 1954 with 3.7 million being shifted to feed grains.

2. *Old South.*[3]—Under the present law (as of September 1953) there probably would be a reduction of about 3.7 million acres in cotton and nearly a half million acres of wheat in 1954 in this area, comprising the Appalachian, Southeast, and Mississippi Delta States. Of this diverted acreage about a million acres would probably be shifted to corn and over a million acres to hay and pasture. There would be an increase of about 630,000 acres in soybeans. About a million diverted acres would probably be left idle in 1954.

3. *Corn Belt and Lake States.*—In these areas about 2.5 million acres less wheat and 4.7 million acres less corn are expected in 1954. Of this diverted acreage, 3 million acres would go into other feed grains in 1954 and over 2.4 million acres into oilseeds, primarily soybeans. Most of the remainder of the diverted acres would be used for hay or pasture with little or none expected to be left idle or fallow in 1954.

4. *Oklahoma and Texas.*[4]—It is estimated that in these States about 2.2 million acres would be diverted from wheat and nearly 3 million acres from cotton in 1954. Nearly half of this acreage is expected to be shifted to grain sorghums and about 1.2 million acres to other feed grains. About 900,000 acres are expected to go into hay and pasture with about 700,000 acres being left fallow or idle in 1954.

5. *Southwestern States.*[3]—About 1.3 million acres may be diverted from cotton in 1954 and a third of a million acres from wheat in this

[3] The 1954 cotton acreage allotment was increased to 21.4 million acres on January 30, 1954.
[4] Actual shifts in 1954 will be smaller than indicated, due to upward revision of the 1954 cotton allotment (January 30, 1954).

area. Over half of this diverted acreage will be planted to feed grains in 1954 with barley the predominating type. About 360,000 acres are expected to be left idle or fallow in 1954. Flax, hay, pasture and other crops will probably occupy the remaining 375,000 diverted acres.

6. *Pacific Northwest.*—Over half of the 1.7 million acres diverted from wheat in this area is expected to be idle or fallow in 1954. A considerable acreage will be shifted to oats and barley with about a tenth going into hay and pasture.

TABLE 3.—*Projected production on acreage diverted from wheat, cotton, and corn in 1954* [1]

Crop	Estimated diverted acres [1]	Estimated production [2]	
		Quantity	Unit
	In thousands	*In thousands*	
Corn	1,777	33,749	Bushels.
Oats	4,874	137,671	Do.
Barley	3,353	60,928	Do.
Rye	209	1,825	Do.
Sorghums	3,532	44,611	Do.
Hay	2,554	3,613	Tons.
Soybeans	3,009	52,837	Bushels.
Flax	370	3,907	Do.
Feed grain changes:			
Total increase for 4 feed grains	13,536	5,859	Tons.
Decrease of corn in commercial areas	5,442	6,412	Do.

	Crude oil	Meal and cake
	In thousands of pounds	*In thousands of tons*
Oil and meal production changes:		
Increase in soybeans	555,000	1,240
Decrease in cottonseed	[1] 612,000	[1] 850
Increase in flaxseed	77,000	70

[1] Table prepared in September 1953. Special legislation approved on Jan. 30, 1954, increased the 1954 crop cotton allotment by about 4 million acres over the level assumed here. The figures on other crops are still broadly indicative of diverted acres use in 1954.

[2] Based on 1942–51 average yields by States in which diverted acres are located.

7. *Northeast.*—Diversion in these States in 1954 is estimated at 266,000 acres from wheat and 123,000 acres from corn. Over half of the diverted acres are expected to be planted to oats or barley with about 120,000 acres for use as hay and pasture.

Projected production

1. *Cotton.*—The assumed 17.5-million-acre allotment for cotton would, under normal weather conditions, produce about 10 million bales of cotton from 16.5 million acres of cotton actually planted. This allows for a higher than average yield resulting from use of the best land for cotton, higher use of fertilizer, better cultural practices, and low abandonment. (The increased allotment of 21.4 million acres, approved on January 30, 1954, would normally produce close to 12 million bales.)

2. *Wheat.*—Production for 1954 under acreage allotments is estimated at 950 million bushels. This assumes about average yields on the allotment acreage. Under and over planting of allotments is assumed to about balance.

3. *Corn.*—Production in the commercial corn areas is assumed to fall about 229 million bushels as a result of a diversion of 5,442,000 acres to other uses. Corn production outside the commercial corn

area would increase about 34 million bushels. The 195 million bushels net reduction in corn production would be largely offset by an increased production of about 138 million bushels of oats, 61 million bushels of barley, 45 million bushels of grain sorghums, and about 460,000 tons additional oil meal and cake (table 3).

4. *Hay.*—Production on diverted acres is estimated at 3.6 million tons. No quantitative estimate can be made of the feed value of the additional 2.5 million acres of pasture but this acreage should provide additional roughage for livestock on many farms (table 2).

5. *Oilseeds.*—Based on a 17.5-million-acre cotton allotment, cottonseed oil production might be expected to fall by about one-third or somewhat over 600 million pounds. Oil production in 1954 from the crushing of the increased soybean and flax production is estimated at about 632 million pounds (table 3). (With the cotton allotment of 21.4 million acres approved on January 30, 1954, the reduction in cottonseed oil output would be smaller than this. The increase in soybean oil production would be nearly as great, as most of the assumed acreage increase for soybeans is in the Corn Belt.)

SUMMARY OF ALTERNATIVE PROGRAMS FOR INFLUENCING THE USE OF DIVERTED ACRES

There follows (i) a summary of alternative programs, classified by major groups, which should be considered, and (ii) a discussion of these programs in terms of the principal problems which must be considered. Many of the programs raise serious questions relating for example, to funds required, legal aspects, the time available for placing them in effect, and feasibility from the standpoint of public acceptance including the attitude of producers.

Details of these programs, including a discussion of advantages and disadvantages, are contained in the following section.

Alternative programs classified by major groups

1. *Programs for which compliance is required as a condition of price support.*—Group 1 programs:

(*a*) Intercommodity compliance program: A producer, as a condition of price support for a particular commodity, must comply with all acreage allotments for all commodities established for the farm—perhaps including allotments established for crops which are not price supported.

(*b*) Acreage limit program: A producer, as a condition of price support for a particular commodity, must comply with (i) all acreage allotments for all commodities established for the farm and (ii) an acreage limit for each of certain designated crops. Such crops would include those for which allotments were not established, but for which the Secretary determines that any substantial acreage increase would be detrimental. For 1954, for example, such acreage limits would be the 1953 acreage on the farm.

(*c*) Total allotment program: A producer, as a condition of price support for a particular commodity, must comply with (i) all acreage allotments for all commodities established for the farm and (ii) an aggregate permitted acreage for all other depleting crops normally grown.

(*d*) Minimum conserving acreage program: A producer, as a condition of price support for a particular commodity, must comply with a minimum acreage of soil conserving crops established for the farm. The minimum acreage and the eligible crops would be established on the basis of factors such as soil conditions, past crop acreages, and farm needs.

(*e*) Comprehensive land use program: A producer, as a condition of price support for a particular commodity, must adhere in his farm operations to a comprehensive land-use program, carefully tailored to fit his farm, and covering a complete rotation cycle of a period of 3 to 5 years. The program would reflect long-term conservation and soil improvement objectives through use of cropping systems adaptable to soil types, based upon a critical farm-by-farm analysis.

2. *Programs under which a payment is made as an incentive to cooperate.*—Group 2 programs: This approach would not require compliance as a condition of price support, but depends upon a payment for incentive.

(*a*) Minimum conserving acreage program: A producer payment would be made provided the acreage in soil conserving crops on the farm was not less than the minimum soil conserving acreage established for the farm. The minimum acreage and the eligible crops would be established on the basis of factors such as acreage diverted, soil conditions, past crop acreages, and size of farm. The rate of payment per acre could be varied with productivity.

(*b*) Allotment payment program: A commodity allotment payment would be made to each producer based on the normal yield of each acreage allotment, provided all acreage allotments established for the farm are complied with. Eligibility for any payment would depend upon compliance with each allotment established.

(1) A variation would add, as a condition for any allotment payment, that a producer conform to additional acreage limits imposed for other crops. For administrative convenience such acreage limits would for example refer to "the 1953 acreage of soybeans."

(2) A further variation of (1) would provide for compliance with a minimum soil conserving crop acreage as a condition for payment.

(*c*) Comprehensive land use program: This program would be identical with that outlined in 1–e above, except that it would not require compliance as a condition of price support. Instead, it would provide for a payment as the incentive feature. Because the plan is so comprehensive it is doubtful that a payment feature is desirable in view of probable extremely high costs.

(*d*) Acreage rental program: All or part of the diverted acreage, based upon the reduction required in allotment crops, would be rented from producers. The rate of rent could be varied by productivity, and use of the rented acreage would be specified. A variation of this program is discussed in a later section.

3. *Other programs.*—(*a*) Educational program: The importance of a comprehensive educational program is discussed in detail in appendix 1. It is emphasized that an educational program should be an integral part of any approach taken in the solution of the diverted acreage problem. If undertaken by itself, that is, without the support

of other actions, an educational program would meet with very limited success in the solution of the problem.

(*b*) The following approaches, while not directly related to the problem of diverted acres as such, might be of material assistance.

(1) Compliance with acreage allotments as a condition for ACP assistance: This action would require that Federal cost-sharing assistance now provided under the agricultural conservation program would be conditioned upon compliance with all acreage allotments established for the farm.

(2) Credit for underplanting: Provide for credit, in the establishment of any future allotment, of an acreage equal to the allotment in years for which the Department announces that an acreage smaller than the allotment may be desirable. Many producers are hesitant to underseed their allotment because of its possible effect on the size of their future allotment.

A variation could provide that underplanting credit be conditioned upon a suitable use of the underplanted acreage, for example, idle, fallow, or conserving.

Current legislation provides for a 10 percent tolerance credit with respect to cotton. Relaxation for other commodities and a further relaxation for cotton probably would require legislation.

(3) No credit for overplanting: Consideration might be given to a provision which would rule out overplanted acreage in the calculation of future allotments. This provision, now applicable by law to cotton, peanuts, and rice under marketing quota legislation, would discourage the planting of large excess acreages as a basis for obtaining larger allotments in the future.

(4) Elimination of the cropland device for establishing cotton allotments. This provision results in a substantial number of farms receiving allotments either (i) equal to the highest planted acreage, or (ii) in excess of the producer's desire to plant.

(5) Adoption of (2) and (3) would introduce additional rigidity in the allotment procedure, as it would tend to freeze acreage and move in the direction of monopoly. If a program involving control as a basic feature is to be operated, perhaps safeguards such as these could be considered not unreasonable.

Principal problems.

Alternative programs discussed here are identified according to their appearance in section A above. For example, "Group 1 programs" has reference to all those listed in section A–1 with respect to which compliance is required as a condition of price support. Likewise, program 1–a refers to the "Intercommodity compliance program" outlined in section A–1–a.

1. *Conditional price support versus payment incentive.*—(*a*) All group 1 programs would require compliance as a condition of eligibility for price support. Thus, to this extent these programs are not voluntary.

(*b*) On the other hand all group 2 programs provide for a payment as an incentive to cooperate. It would not be necessary to comply with any of these programs as a condition of eligibility for price support; the programs are completely voluntary and participation in them simply means more return to the participants.

Obviously a program which *did not* provide more restrictions as to eligibility for price support but *did* provide an incentive-type payment would be more attractive to producers.

2. *Acreage shifts and conservation effects.*—(*a*) With respect to allotment crops, programs 1–a, 1–b, and 1–c would restrict acreage to the extent that producers felt a need for price support and were willing to conform to acreage limits in order to obtain it. Program 1–a would have practically no value if allotments were established only on the basic commodities.

The acreage limit program (1–b) would be quite effective in restricting acreage; *provided*, acreage limits were established for important crops—for example, in 1954 for soybeans and for feed grains. This program has an advantage in that it ties to the acreage of a specific year as a base point of control. For example, 1953 acreage would be used if the program were placed in operation for 1954.

None of the three programs would necessarily have a significant effect on the acreage in conserving crops.

(*b*) The minimum conserving acreage program (1–d) could result in a substantial addition to conserving acreage; *provided*, That eligibility for price support is a sufficient incentive to warrant this action. It is doubtful that it would be very effective.

(*c*) The eligibility-for-price-support incentive is not likely to be very attractive in encouraging participation in a comprehensive land-use program such as outlined in (1–e). To the extent that there is participation, additional conservation could be obtained. To get this type of program launched in an effective way, however, would require a producer payment.

(*d*) Of the payment-type programs, the acreage rental program (2–d) and the minimum conserving acreage program (2–a), in that order, would be the most effective in encouraging desired uses of the diverted acreage.

The allotment payment program (2–b) would not necessarily result in a substantial increase in conserving acreage, although it would control the acreage of allotment crops grown.

The comprehensive land-use program could be effective in controlling diverted acreage and increasing conservation. This program is rather elaborate, however, and would require some time—several years—to place in effective operation.

(*e*) The program providing for compliance with acreage allotments as a condition of ACP assistance (3–b (1)) is likely to have little effect on diverted acreage.

3. *Time required for program operation.*—(*a*) Programs 1 (*a*), 1 (*b*), and 1 (*c*), conditioning price support on adherence to certain acreage limitations, could (as of September 1953) be placed in effect in 1954 if considered desirable, and providing administrative funds were made available. Of these three, program 1 (*b*), which if adopted for 1954 would tie to 1953 farm acreages for certain limit crops, probably could be launched with the least administrative difficulty and be reasonably effective. Of the remaining programs in group 1, the comprehensive land use program (1 (e)) would require the most time to get underway.

(*b*) As a group, the payment-incentive-type programs (group 2) would require more time and effort to get underway, principally

because they involve producer payments—and added complication. Of this group, the acreage rental program (2 (*d*)) probably would require the least time to place in operation.

(*c*) Program (3 (*b*) (1)), involving compliance with acreage allotments as a condition for agricultural conservation program assistance, could be placed in operation on relatively short notice.

4. *Legal aspects.*—(*a*) With respect to group 1 programs, additional legislative authority would be needed only for programs 1 (*d*) and 1 (*e*).

(*b*) For group 2 programs no additional legislative authority would be required provided the payments are not interpreted to be for purposes of price support.

The current status of legal authority for establishing eligibility requirements as a condition for price support appears to be about as follows:

1. With respect to the basic agricultural commodities, authority may not extend beyond a requirement of compliance by the producer with provisions relating to (i) acreage allotments, (ii) production goals, and (iii) marketing practices including marketing quotas when authorized by law. While section 401 (*c*) of the Agricultural Act of 1949 authorizes price support to be conditioned upon compliance with acreage allotments, production goals, and marketing practices, those terms, as used in the act, have application with respect to crops harvested for commercial purposes and do not appear to embrace programs of land utilization designed either for soil building or conservation or to achieve good production practices.

2. For the designated nonbasic agricultural commodities legal authority is at least as broad as that for the basic commodities.

3. For other nonbasic agricultural commodities legal authority is somewhat broader, and further conditions of eligibility for price support may be required, provided they are deemed not unreasonable.

5. *Program and administrative costs.*—(*a*) General: It is difficult to determine the total program and administrative funds that would be required under each program. Rough approximations can be made, however, as a guide to comparative costs. These approximations were made under the following assumptions:

(1) To cover only those additional costs that would be included in carrying out the proposed program. That is, they do not include the costs of determining allotments and checking performance for any allotment crop. The estimates also are conditioned on a continuation of ACP administrative-program funds at about the present level. In other words, it is assumed that funds now available for administration under certain programs will continue to be available.

(2) A range of costs results assuming that (i) allotments would be established only for the basic crops, and (ii) allotments would be established for the basic crops, feed grains and rye, and the oil crops (soybeans and flaxseed).

(3) The total number of allotments involved may be about as follows:

	Number of allotments, thousands
Basic crops:	
Corn (commercial area)	1,800
Cotton	1,300
Peanuts	146
Rice	16
Tobacco	600
Wheat	2,100
Feed grains and oil crops:	
Oats	1,300
Barley	300
Rye	80
Grain Sorghum (for grain)	145
Corn (noncommercial area)	1,600
Flaxseed	85
Soybeans	370

Since a large number of farms will have more than one allotment crop, the aggregate of farms affected will be considerably smaller than the total of all allotments. The Census reports approximately 5.4 million farms in the United States. Of this total it is estimated that approximately 3.5 million produce basic crops, of which about 1.5 million, or approximately 40 percent, produce more than one basic crop. On the other hand, if allotments were also established for feed grains and oil crops, the total number of farms involved might approximate 4.5 million, with about 3.8 million or 85 percent producing more than one allotment crop.

(*b*) Rough approximations of additional costs:

(1) Group 1 programs: Of this group, additional costs under the intercommodity compliance program (1 (*a*)) probably would amount to less than $5 million. Under the acreage limit program (1 (*b*)), the total allotment program (1 (*c*)) and the minimum conserving acreage program (1 (*d*)), such costs probably would be in the range of from $10 to $15 million.

On the other hand costs under the comparative land use program (1 (*e*)) probably would run considerably higher, perhaps from $60 to $100 million.

(2) Group 2 programs: For these programs, which involve payments, the costs would run far higher. For example, under the acreage rental program (2 (*d*)) program costs might run from $200 million to $500 million. Costs for other programs within this group probably would be in the same range.

(3) These rough cost estimates would be reduced to the extent that participation was below the maximum. But nonparticipation, obviously, would reduce the effectiveness of the program.

FURTHER DISCUSSION OF ALTERNATIVE PROGRAMS FOR INFLUENCING THE USE OF DIVERTED ACRES

1. Group 1 programs (programs for which compliance is required as a condition of eligibility for price support)

a. Intercommodity compliance program

(1) General description: A producer, in order to be eligible for price support for a particular commodity, must comply with all acreage allotments for all commodities established for the farm. This plan contemplates that acreage allotments might be established for a num-

ber of commodities other than those covered by marketing quotas. It could include, legally, the establishment of allotments for some crops the price of which is not supported, on the basis that while a support program may not be justified, a substantial increase in production resulting from the use of diverted acreage would jeopardize producers' interests.

(*a*) The program as described would require compliance with each allotment established as a condition for price support for any one commodity. Many variations could be adopted:

(i) Provide that as a condition for price support for commodity X, the allotment for commodity X may not be exceeded, and that the aggregate allotment for all other allotment crops may not be exceeded. This provides some tolerance among acreages within the allotment total for those crops other than that for which support is conditioned.

(ii) These provisions could be adopted on the basis of compliance for a single farm, all farms in the county, all farms in the State, or all farms wherever located, in which the particular farmer concerned had a financial interest.

A variation would provide, for example, as a condition of price support for commodity X, that compliance with allotments for commodity X would be made on a State basis, and compliance with the aggregate of other allotments would be made on a county basis. Some variation of this sort would facilitate administrative operation, which admittedly is both complex and costly.

(2) Advantages:

(*a*) No additional program funds or payments would be required.

(*b*) It would tend to prevent the shifting from a crop for which price support is available to another crop for which no increase in supply is desired (possibly including some which may not be supported).

(*c*) It would tend to promote greater conserving use of land.

(*d*) No legislation is required.

(3) Disadvantages:

(*a*) Administrative costs would be increased.

(*b*) Lack of time would make it difficult to actually check compliance prior to the time price support is required. This might be solved by requiring a producer certification in lieu of measurement—a procedure that is not viewed as very satisfactory and which may lead to more problems than it solves.

(*c*) It would be of limited effect only, unless acreage allotments are established for certain crops in addition to basic crops.

(*d*) It is not likely to be popular, since it means more restriction and no additional payment.

(*e*) Participation would depend upon attractiveness of the price-support program.

b. Acreage limit program

(1) General description: For each farm that produces designated price supported commodities an acreage limit on certain designated crops (in addition to the crops for which allotments are established) would be determined. A separate "limit" would be determined for each such crop or for a group of related crops (feed grains, for example). Price support would be conditioned on compliance with (i) all acreage

allotments and (ii) all limits determined for each of the designated crops or group of crops. Crops designated for limited acreages would consist of nonallotment crops or land uses with respect to which the Secretary determines the acreage might otherwise increase to the extent of substantial detriment to the supply situation.

If applied in 1954, such limits might very well be the 1953 acreage, adjusted where necessary to take into account abnormal situations existing on the farm in 1953, inequity, and great hardship.

(2) Advantages:

(*a*) No additional program funds are required.

(*b*) It would prevent the shift of acreage diverted from an allotment crop to another crop for which increases should be discouraged.

(*c*) It would have substantially the same effect as though acreage allotments were established for these crops, and it would simplify the administrative burden of determining acreage limits.

(*d*) It could be placed in effect rather quickly.

(*e*) It is relatively simple, may be easily understood.

(*f*) No legislation is required.

(3) Disadvantages:

(*a*) Administrative costs would be increased.

(*b*) Participation would depend upon the attractiveness of the price-support program.

(*c*) It may be unpopular as it means more restriction, but with no payment.

c. Total allotment program

(1) General description: This plan involves the establishment for each farm of a "total allotment" to consist of the sum of (i) specific allotments established for the farm—this could include basic crops, as well as other crops not all of which might be price-supported but for which acreage increases are not desired, and (ii) an "aggregate permitted acreage" for other crops, the supply situation for which would not suggest the determination of separate allotments.

As a condition of price support for any commodity, a producer must comply with all acreage allotments for all commodities established for the farm, and must comply with the "aggregate permitted acreage" for crops included in this group.

(*a*) The same variations could be adopted for this program as are discussed in detail in section a, above.

(2) Advantages:

(*a*) It would promote greater conserving use of land.

(*b*) Allotments have been used in past programs. The only relatively new feature is in coupling them with price support—and this was used to a limited extent in 1941 and 1942.

(*c*) No additional program funds would be required.

(*d*) No legislation is required.

(3) Disadvantages:

(*a*) Heavy expense and work would be required to establish a large number of general crop allotments.

(*b*) The administrative burden might cause the program to stall.

(*c*) Participation would depend upon the attractiveness of the price-support program.

(*d*) It would be extremely unpopular as it means more restriction, but with no payment.

d. Minimum conserving acreage program

(1) General description: A minimum acreage of soil conserving crops would be established for each farm, and not less than this acreage of such crops, as determined by field check, would be required as a condition of eligibility for price support. The minimum conserving acreage and the eligible crops would be determined locally by farmer committees. In determining the minimum acreage, consideration would be given to soil conditions in the county or community, to prevalent types of farming, and to the suitability of the soil conserving crops to the area. In dry areas it may be advisable to consider protected fallow as a soil conserving crop. It may be desirable to exempt from the requirement those farms with a very small acreage of cropland.

(2) Advantages:

(*a*) It would require that the producer make at least a minimum effort to establish a good land-use program on his farm, yet it would not penalize him if he already has adopted such a program. The minimum soil conserving acreage may not always be in excess of the acreage of such crops customarily produced on the farm.

(*b*) Complete conversion of acres from allotment crops to competitive or soil-depleting crops such as soybeans, feed grains, etc., would be prevented, except perhaps on farms where a reasonably good land-use program already has been established.

(3) Disadvantages:

(*a*) There may be a strong tendency to treat all farms alike in respect to the required percentage of soil-improvement crops, whereas the soil-deterioration problem is likely to be much more critical on some farms than on others, particularly those farms with a small cropland acreage.

(*b*) The selection of soil-conserving crops suitable for certain areas may be very limited.

(*c*) In some cases it may be difficult to determine whether the soil-conserving requirement will be met by the time eligibility for price support must be determined. This problem might be handled on the basis of a certification, although this procedure is questionable.

(*d*) It would not necessarily solve the diverted acreage problem but would materially assist, with success depending partly on the extent to which the minimum soil-conserving acreage is higher than the past average.

(*e*) Legislation is required.

(*f*) The plan would require some "payment incentive" to make it effective.

e. Comprehensive land-use program

(1) General description: Provides for the development of a comprehensive "farm plan" for each farm, described as follows:

(*a*) Lists of alternative recommended uses or cropping systems for each major kind of soil in the county would be developed, subject to suitable approval by a local group. The lists would be reviewed annually, consistent with long-term conservation and soil-improvement objectives.

The distribution of the different major kinds of soil on each farm would be determined and studied. Soil surveys or other relevant data would be utilized.

(*b*) A land-use program for each farm (a "farm plan") would then be developed by the producer. It would cover one complete rotation cycle or a period of 3 to 5 years and would be developed by selecting uses or cropping systems from the approved list for each kind of land found on the farm. A local committee of farmers would approve the farm plan.

(*c*) A field check on actual compliance with the plan would be required to qualify any producer for price support.

(2) Advantages:

(*a*) It would help to promote soil conserving uses.

(*b*) Many farmers already recognize, and are conscious of, the value of farm plans. A great deal of information on fitting land uses or cropping systems to specific kinds of soil already has been developed. A sizable staff, experienced in dealing with land-use problems, is available to assist in the plan.

(*c*) A gradual shift away from the historical basis for the distribution of acreage allotments could be incorporated into the program, if the majority of the farmers in the county wishes to move in this direction. The portion of the county quota distributed on a "land capability basis" could be gradually increased.

(*d*) Flexibility could be assured through annual revision of the lists of recommended land uses and cropping systems.

(3) Disadvantages:

(*a*) It requires a high degree of "control"; critics could raise objection on the basis of regimentation.

(*b*) The program could become essentially a technician's program unless the farmers themselves thoroughly understand it, and take the initiative in developing recommended uses and cropping systems for each kind of soil, and in working out individual farm plans.

(*c*) It would not directly prevent a shift from allotment crops to competing crops. On farms with considerable acreages of good soils it would be possible to shift from corn to soybeans, for example, and still follow a land-use plan consistent with conservation needs.

(*d*) A very heavy burden would be placed on local farm leaders and workers in getting the program launched.

(*e*) It requires legislation.

2. Group 2 programs (programs providing for a payment to producers, but with respect to which compliance is not required as a condition of eligibility for price support)

a. Minimum conserving acreage program

(1) General description: This program differs from that discussed in 1 (*d*) above in only two essential features: (i) It does not require compliance with it as a condition of eligibility for price support, and (ii) it does provide for a payment based upon compliance.

It does not require legislation.

b. Allotment payment program

(1) General description: A commodity allotment payment would be made to each producer based upon the normal yield of each acreage

allotment, provided all acreage allotments established for the farm are complied with. Acreage allotments could be established for commodities in addition to basic commodities, if the situation warranted this step.

Eligibility for any payment would depend upon compliance with each allotment established for the farm.

This program could be undertaken within the framework of the agricultural conservation program, provided funds are made available. It is believed, however, that the commodity-payment feature should be independent of the cost-sharing assistance for conservation practices provided under the ACP—a program which points toward the improvement of the land rather than considering directly the economic status of the producer.

(*a*) A variation could provide for a good land-use payment, conditioned upon compliance.

(*b*) Another variation could provide for a penalty against the allotment payment for failure to comply with a good-land-use minimum acreage.

(2) Advantages:

(*a*) It would be relatively simple to explain, and easily understood. In this connection, an allotment-payment-type program has been used in some past programs, principally in the late 1930's.

(*b*) No legislation is required.

(*c*) The payment feature would make it much more acceptable to producers.

(3) Disadvantages:

(*a*) It would require substantial program and administrative funds.

(*b*) It would require detailed compliance checking.

(*c*) It would not necessarily result in a desirable use of diverted acreage unless a penalty were provided for failure to meet a good land-use minimum acreage.

(*d*) Thus the program would be extremely difficult to justify.

e. Comprehensive land-use program

(1) General description: This program differs from that described in 1 (*e*) above in only two essential features: (i) it does not require compliance with it as a condition of eligibility for price support, and (ii) it does provide for a payment based upon compliance.

The program is rather comprehensive, would require considerable time—perhaps several years—to get in effective operation, and would be a relatively high-cost program.

d. Acreage rental program:

(1) General description: Under this general type of program an offer would be made by the Government to rent or lease from producers a specified amount of cropland, determined on the basis of the reduction required in the allotment crops for the farm. The use to be made of the rented acres would be specified, and permitted uses might be different by areas depending on local requirements for soil protection, possible alternate uses, etc. Compensation to the producer for the rented acres could be varied among farms based on land productivity.

(*a*) There are many possible variations of this general approach. One specific proposal of this type is discussed in detail below.

(2) Advantages:

(*a*) It would be entirely voluntary.

(*b*) It would be reasonably flexible—different conditions in different areas could be considered; adjustments could be made from year to year.

(*c*) The rented acres would be firmly controlled as to use. For example, requirements might be established for keeping the land idle, or for putting it into a soil-conserving use.

(*d*) The rented acres would be identifiable on the farm, and compliance thus facilitated.

(*e*) No legislation is required.

(3) Disadvantages:

(*a*) Program costs would be very high.

(*b*) Extensive supervision of the rented acres may be required, involving substantial administrative costs.

(*c*) Since the plan would be voluntary, participation would depend largely on the rate of payment.

(4) A specific example of the rental approach, originally suggested for the 1954 crop cotton program, is as follows:

(*a*) General description:

(i) Cotton: The proposal would require the Government to lease that acreage of cotton land which, under the 1954 acreage allotment and marketing quota program, will be diverted from cotton in excess of 10 percent of the 1952 cotton acreage. Under this proposal farmers would be permitted to use the remainder of such diverted cotton acreage for whatever purpose they desired. The proposal might also require farmers to plant the leased acreage to cover crops and plow them under. The rental rate would be $40 per acre in the States of California, Arizona, and New Mexico; $10 per acre for 1 million acres in Texas, and $25 per acre for the remainder of Texas and all other States. It is not explained in the proposal how these rental rates were determined nor does the proposal contain information with respect to the source of funds for making rental payments, but it is assumed that the proposal contemplates a special appropriation under the Soil Conservation and Domestic Allotment Act or under special legislation for this purpose.

With the 1954 national cotton acreage allotment increased by congressional action to around 21.4 million acres, the acreage diverted from 1952 plantings would be about 6 million acres. This would make it necessary for the Government to lease something over 3 million acres.

(ii) Wheat: With acreage allotments and marketing quotas on wheat in effect in 1954, it is estimated that the reduction in wheat acreage from 1952 seedings will be around 15 million acres. Such a reduction in acreage under this proposal would make it necessary for the Government to lease something over 7 million acres of diverted wheat land in 1954.

(iii) Corn: Assuming corn-acreage allotments will be in effect in 1954, it is estimated that the reduction in corn acreage from 1952 plantings will be around 5 million acres in the commercial corn-producing area. Although such a reduction in acreage for the area would be less than 10 percent of the 1952 plantings, an

analysis of the reduction by States indicates that, under this proposal, the Government would be required to lease about 2 million acres of the diverted corn land in 1954.

(*b*) Advantages: A diversion to other crop uses of the total acreage that will be taken out of cotton, wheat, and corn in 1954, much of which is highly productive, would have a tremendous impact upon prices of the commodities produced on the diverted acreage. Many of these commodities have no protection under our present price-support programs. However, the prices of a number of commodities that might be grown on the diverted acreage have declined drastically during the past 12 months. Therefore, the net effect of diverting to other crop uses the total acreage taken out of cotton, wheat, and corn would be to depress further the prices of the commodities produced on the diverted acreage in order to continue maintaining a high price level for cotton, wheat, and corn. Rental by the Government of a substantial portion of the acreage removed from the production of cotton, wheat, and corn; and retirement of that acreage from the production of other soil-depleting crops could prevent this serious impact on the prices of other commodities. The acreage that could be diverted to other crop uses under the proposal is of course arbitrary, but 10 percent of the 1952 acreage of cotton, wheat, and corn might be the maximum that could be so diverted without causing a serious impact on the prices of commodities produced on such diverted acreage.

(*c*) Disadvantages: It is obvious that rental payments such as those proposed for cotton would have to be extended to all basic crops and possibly to other crops which are in substantial surplus. The program contemplated by the proposal would, therefore, call for large-scale Government subsidization.

Under the proposal no provision is made for making rental payments in any State where the total acreage of the restricted crop is not reduced below 90 percent of the 1952 acreage. It does not appear equitable that a farmer would not receive a rental payment merely because the overall reduction in his State did not exceed 10 percent of the 1952 acreage. Many farmers in such a State might have their acreage reduced drastically from 1952. Therefore, it appears that payments would have to be made on an individual-farm basis.

Since only a small part of the cotton acreage and none of the wheat and corn acreage was measured in 1952, farmers would have an even greater incentive under the proposal to overstate their 1952 plantings than they now have in connection with the acreage allotment and marketing quota programs.

It is highly questionable whether uniform rates for any commodity could be equitably applied over any large area.

(*d*) Estimated program costs:

(i) Cotton: It would be necessary under the proposal for the Government to lease something over 3 million acres. The rental of this acreage would involve a program cost of approximately $80 million if rental rates contained in the proposal were applied to such acreage.

(ii) Wheat: A reduction in the 1954 wheat acreage of around 15 million acres from 1952 seedings would make it necessary under this proposal for the Government to lease a little over 7 million

acres of diverted wheatland. The rental of this land, based on a national average rate of $12 per acre, which is considered equitable with the rate proposed for cotton, would involve a program cost of approximately $85 million. Since there is considerable variation in the value and productivity of wheatland between areas across the country, it is obvious that a flat rental rate could not be equitably applied over any large area.

(iii) Corn: A reduction in the 1954 corn acreage from 1952 plantings of around 5 million acres would make it necessary under this proposal for the Government to lease approximately 2 million acres. The rental of this acreage, based on a national average rate of $20 per acre, which is considered equitable with the rate proposed for cotton, would involve a program cost of only about $40 million. Because of variation in the value and productivity of cornland between farms within the commercial corn-producing area, it is questionable whether a uniform rate could be equitably applied over any large area.

(*c*) Estimated administrative costs: Implementation of the proposal would involve administrative costs of (i) determining the 1952 acreage, which would be largely reported by farmers; (ii) determining the 1954 acreage, which would be measured; (iii) determining that part of the acreage reduction from 1952 which would be eligible for rental payments; and (iv) calculating and making payments. Administrative costs involved in making the determinations under (i) and (ii) will be incurred in administering the acreage allotment and marketing quota programs. Therefore, the costs incurred under (iii) and (iv) would constitute the principal additional cost involved in administering the proposed program. Since the cost incurred under (iii) would involve measurements and rechecks to determine plow-under compliance with respect to cover crops, such cost would be substantially higher than the cost incurred under (ii).

It is estimated that the leasing of 3 million acres of cotton land, 7 million acres of wheatland, and 2 million acres of cornland by the Government would, under the proposal, involve additional administrative expense of roughly $5 million. Eliminating the requirement that farmers plant the leased acreage to cover crops and plow them under would substantially reduce the additional administrative cost involved under the proposal.

3. Other programs

The importance of a comprehensive educational program, to be an integral part of any other programs or actions taken, is discussed below. Five major fields of educational effort are outlined which should be especially emphasized. A complete understanding by every farmer of the situation he is faced with in dealing with this problem is paramount as a first step in accomplishing the objective sought. Thus, the educational program should be pushed in a vigorous and aggressive manner. It is emphasized that an educational program—no matter how effective and well planned—will not produce the results sought without the help of other programs.

(*a*) The education program: Progress in dealing satisfactorily with the problems created by diverted acreage will depend a great deal upon how well farmers understand these problems and the alternatives for meeting them.

Good factual information and educational assistance is essential, for the problems are difficult and the alternatives are not easy. This is clearly shown by the sort of questions that farmers are raising. The State extension services in general recognize this educational job as a challenging responsibility that calls for the application of educational know-how and for organized educational effort for farmers and others, down to the local level where farm families make and carry out decisions as to crops and land use. Organized educational assistance to farmers locally is of great importance, for the surplus supplies of wheat, cotton, corn and other crops all come from localities and it is in the local communities, on their individual units, that farmers will have to deal with the problem of diverted acres.

Five major fields of educational effort should be emphasized:

(1) A good program of factual information on the supply, demand, and the outlook for each crop. Farmers are much interested in this type of information. Forward estimates of what prospects are likely to be for several years ahead would be of great value.

(2) A program of good factual information on the several alternative courses of action for dealing with diverted acres, including the advantages and disadvantages of each, and the consequences likely to result.

The above two fields of educational work necessarily involve important but somewhat general types of information.

(3) The local interpretation and adaptation of these types of information in terms of individual producing areas and communities. Farmers need assistance in appraising the impact of prospective changes on such community wide things as the balance or lack of balance between livestock and feed supplies and the adequacy of market outlets and facilities for changed types and volumes of production. Often considerable State and locally developed information on local levels and patterns of production is needed.

(4) Information and other educational assistance which will be useful to farmers in deciding upon changes in individual farm business organization. In some areas the diversion of acreage may be on a scale which would suggest some reorganization in systems of farming. There are important dollar and cents aspects to these changes. Farmers are in a cost-price squeeze as it is, and they could use considerable factual material on practical farm organization principles, feasible combinations of enterprises, efficient standards for using labor and equipment, and other farm management information that will help them make the most of the choices open to them.

(5) The application of all the natural sciences in terms of what is commonly called production practices. As changes in cropping systems and systems of farming are made and as land is shifted from one type of use to another, farmers are confronted with many new problems in the growing of crops, the handling of livestock, and the carrying out of good land resource conservation objectives. Much helpful factual information on production and related practices is being made available to farmers, and this educational effort will need to be adapted and intensified.

Perhaps most important of all is the need for helping farmers understand the relationships among the facts of the agricultural outlook, program possibilities, production, practices and good farm business organization principles that they must take into account as they plan the organization and operation of their individual farm businesses.

B. Further Analysis of Selected Methods of Dealing With Problems Created by the Acreage Diverted From Wheat, Cotton, and Corn in Years Subsequent to 1954[5]

I. GENERAL

This paper discusses the details of a proposal to control the use of diverted acreage in years subsequent to 1954, involving some combination of two principal approaches:

A. As a condition of price support for any commodity grown on the farm, a producer must comply with specified limitations on (i) the use of the diverted acres and (ii) the acreage utilized for designated crops.

B. A payment would be made to any producer complying with the use limitations required as a condition of price support, provided the acreage in soil-conserving crops or uses on the farm was not less than a minimum soil conserving or good-land-use acreage established for the farm.

II. DETAILED DISCUSSION

A. In connection with approach A, the following four features would represent progressively increasing degrees of control:

1. *Compliance must be observed with each individual allotment established for the farm.*—This feature already has been adopted as a condition of price support for the basic crops in 1954. It could be expanded to require intercommodity compliance for all allotment crops by any producer, not only for a single farm but for all other farms in which he has an interest, located (i) in the county, (ii) in the State, or (iii) in all States. This program would be of very limited effect and would not contribute to effective control of diverted acres if applicable only to compliance with allotment crops, unless establishment of allotments is expanded to cover a number of additional crops, such as feed grains and soybeans; on the contrary it is likely to produce considerable ill will.

For marketing quota crops, for example wheat and cotton, the incentive to comply with allotments is already very strong because of penalty provisions of the quota legislation. A wheat producer is subject to a penalty on the farm marketing excess equal to 50 percent of the loan rate; a cotton producer is subject to a slightly higher penalty on the farm marketing excess, equal to 50 percent of the June 15 parity price.

2. *Compliance must be observed with (i) the allotment for each allotment crop and (ii) the acreage limit for each other crop specified.*—Specified crops could include individual crops or a group of related crops, such as feed grains, with respect to which it is determined that the acreage otherwise might increase to undesirable levels. The specified crops may or may not be price-supported; for example producers of certain specialty crops such as vegetables may require the protection provided by an acreage limit provision.

It might be mentioned that this compliance feature, as a condition of price support, perhaps could be used to withhold price support, if desirable to do so, from producers of still other commodities on non-allotment farms on which the acreage exceeded the acreage limit

[5] Prepared in October-November 1953.

for a specified crop. This feature, however, would present very serious administrative problems with respect to eligibility and handling. It is proposed that the acreage limit on which price support is conditioned be the previous year's acreage of such crop on the farm; this simplifies administration. Past acreage data for individual farms would of course be required. This could be obtained in any of several ways such as a farm-to-farm canvass or a mail questionnaire. The merits of some form of producer certification could be explored although this procedure has definite weaknesses.

The advantages of this approach far outweigh those of approach 1 since, to the extent that there is participation, it would effectively prevent the shifting of diverted acres into trouble crops. The extent to which producers would participate would depend primarily upon the attractiveness of the price-support program. Producers of both marketing quota and other allotment crops might feel there is more to be gained through resort to alternate crops by expanding acreage of nonquota crops and accepting a price which is not too substantially lower than the support price by reason of the umbrella effect created by the support program. Failure to comply with this approach by those producing marketing quota crops would deprive them of all price support even though most such producers probably would be within their allotments for marketing quota crops because of applicable marketing penalty provisions.

To partially compensate for loss of income and to encourage participation, however, approach 2 could be coupled with an "incentive payment" of some kind.

3. *Neither a cash crop nor a feed crop could be grown on diverted acres.*—Additionally, of course, compliance must be observed with (i) each allotment established for the farm, and (ii) the aggregate-limit acreage for all other cash and feed crops grown on the farm; such aggregate-limit acreage, for example, might be the most recent year's acreage in these crops. This approach, more restrictive than either approach 1 or 2, would effectively limit the use of diverted acres to idle or fallow, or to conserving crops—cover and green manure. However, participating producers would obtain no cash income from the diverted acres and, if put to conserving uses, the diverted acres would entail some additional expense.

Perhaps then, just as for approach 2, this approach should be coupled with an incentive payment of some kind to partially compensate for the loss of income and to encourage participation.

4. *There could be coupled with approaches 1, 2, or 3, the additional requirement that a minimum soil-conserving or good-land-use acreage, consistent with the acres diverted, must be established and maintained on the farm.*—This approach, accompanied by a producer payment, is discussed in detail in later paragraphs. Unless accompanied by a producer payment it is doubtful that it could be considered seriously because of its more restrictive aspects. If this approach is adopted as a condition of price support, further legislation would be required for basic commodities to make it legal.

B. In connection with approach B, it seems reasonably clear that any producer payment made for the establishment or maintainance of a minimum soil-conserving or good-land-use acreage on the farm should be coupled with some more specific control of the diverted acres reflecting some of the features outlined in II–A. In other words,

it is doubtful that a minimum conserving acreage payment should be made unless it provided some assurance of a suitable use of diverted acres.

1. The previous study indicates that of the estimated 30.4 million [6] diverted acres in 1954, about 16.8 million would be diverted from wheat, 8.1 million [6] from cotton, and about 5.5 million from corn. Based upon the size of wheat acreage allotments in 1950, it is estimated that, on the average during the period 1948–52, roughly one-half of the 2.1 million wheat farms produced about 88 percent of the wheat. Of the 5.4 million farms in the United States it is estimated that about 3.5 million, or 65 percent, produce at least 1 basic commodity; about 1.5 million farms produce 2 or more basics.

The penalty provisions relating to marketing quotas on wheat and cotton would provide a very strong incentive for producers to stay within the acreage allotments for these crops; this effect, coupled with the desire on the part of the producer for price support on other allotment or acreage limit crops would suggest that a program involving approach A–2 might reasonably control a sizable percentage of the total diverted acres. This type of program, however, would be unpopular unless accompanied by an incentive payment; is is likely to be so unpopular as to be unacceptable even though it could work reasonably well, technically and administratively, if adopted.

2. Thus an acceptable and workable program might involve approach A–2 coupled with a producer payment conditioned upon having an acreage in soil conserving crops or good land uses not less than a minimum soil-conserving or good-land-use acreage established for the farm.

(*a*) *Level at which minimum conserving acreage should be established.*—To be most effective the minimum conserving or good-land-use acreage for any farm should be not less than the sum of (i) a recent average conserving or good-land-use acreage (perhaps the most recent year) plus (ii) the total acreage required to be diverted from allotment crops (if this is considered too restrictive, perhaps a major portion of the diverted acres, with some flexibility to allow for variations in conserving needs of different farms). This acreage would be determined locally by farmer committees who would give some consideration to factors such as soil conditions, types of farming, and adjustments which already have been made. In appropriate areas the minimum conserving or good-land-use acreage could include protected fallow as a conserving land use, with payment at a materially reduced rate; this variation, however, must be approached with caution.

While the question of what constitutes diverted acres on an individual farm need not be settled at this stage, a brief statement concerning it is appropriate. In determining farm acreage allotments for wheat and corn a base acreage is established, based, among other factors, upon the average planted acreage during the preceding 2 years for wheat, and the preceding 3 years for corn; it is probable that the difference between such base acreage and the allotment should be considered as the diverted acres. In the case of cotton, the allotment procedure is more complex but involves among other factors the calculation and consideration of the most recent 3-year-

[6] This figure has since been reduced about 4 million acres because of special legislation (approved January 30, 1954) increasing the 1954 cotton allotment.

average acreage; perhaps it might be appropriate, therefore, to consider the diverted acres for cotton as such 3-year-average acreage minus the acreage allotment (where this is a plus figure; otherwise the diverted acres would be zero).

(*b*) *Other features.*—No conserving crop payment would be made for any farm for which the acreage of eligible conserving crops or uses was less than the minimum such acreage established for the farm.

Price support would be available, however, to producers who failed to comply with the minimum conserving or good-land-use requirement but who did comply with requirement A–2.

(*c*) *Estimated program cost of the minimum conserving or good-land-use acreage payment.*—The previous study indicated the use and probable production on 30.4 million [7] diverted acres assuming no planned program. If this acreage were put to conserving or fallow uses it not only would deprive producers of the income which otherwise might result, but would place the cost of the conserving crop or protected fallow upon them as well.

The income loss to producers through limitations on the use of diverted acres may be looked at in different ways. If we measure the "loss" as a reduction from the income producers would obtain with no use limitations on diverted acres and with effective price support for all commodities produced on them, the comparison would be about as follows:

At 1942–51 average yields (by States in which diverted acres are assumed to be located) and assumed prices (1954 support price, where announced; 1952 season average for corn and hay; $2.34 per bushel for soybeans representing 85 percent of the November 1, 1953, parity price) the production on the 19.7 million [6] diverted acres which might be utilized for corn, oats, barley, rye, sorghums, hay, soybeans, and flaxseed would have a gross value of roughly $28 per acre. Based upon typical farms in the Corn, Cotton, and Wheat Belts in 1952, operating expenses per dollar of gross farm income approximate 49 cents on the average. Using this factor to arrive at a net return, and applying it to the estimated total diverted acreage excluding idle and fallow, results in an estimated outlay of approximately $321 million, or about $14 an acre. An additional $24 million might be required if an allowance, of say $3 per acre, is made for the 8.0 million acres, if in fallow (some of this acreage would be idle and some fallow would not qualify).

In summary then, a payment rate in the range of from $12 to $14 per acre diverted to soil conserving crops or good land uses—with perhaps a payment of about $3 per acre for controlled fallow in carefully selected areas—would require an outlay, with full participation, of perhaps $350 million excluding administrative expenses.

On the other hand, it may be argued that this degree of net income support with respect to diverted acres is too liberal, and that greater emphasis should be placed on penalty features, as in approach A–2. But the "umbrella effect" of support programs upon the market prices available to nonparticipating producers is so widely recognized that compliance as a condition of price support may prove to be a mild and ineffective penalty. And uncontrolled production on

[7] For 1954, this figure would be reduced significantly because of the increase in the 1954 cotton acreage allotment, approved January 30, 1954.

diverted acres will add to the costs of the price-support program. If wide participation is desired, it seems realistic to anticipate per acre payment costs averaging at least a substantial fraction of those indicated above.

Such a payment should (i) be varied according to relative land productivity and (ii) be made on the diverted acres, contingent upon compliance with both the minimum soil conserving or good land use acreage, as well as specified use limitations. If made on the diverted acres (rather than on the minimum conserving acreage), a higher per-acre rate is assured, and the criticism for making a payment for a "normal or usual" practice is thus avoided.

It is believed this type of program would go far toward controlling the use of diverted acres, while compensating producers to a considerable extent for the loss of net income on the acres diverted.

III. ANALYSIS OF NEW PRICE-SUPPORT PROPOSALS FOR SELECTED COMMODITIES

Introductory Note

During 1953, the Secretary of Agriculture received a multitude of suggestions on price-support policy for various commodities. Some of these contained only the germ of an idea or the hope that something could be done along a certain line. Others were developed in considerable detail. Similar proposals were appearing in farm newspapers and magazines, letters to editors, and among the staffs and members of producers' organizations.

Few of these ideas were completely new to the literature of price-support policy, although many represented independent insights on the part of the individuals who submitted them. Some of these ideas, whether old or new, appeared to hold promise in the present situation. However, very few of them had been subjected to any quantitative analysis of the costs, benefits, and administrative problems which they might involve.

Wool is produced in considerable volume in the United States, but we depend on imports for about two-thirds of our consumption. This fact suggested to various people the possibility of a particular sort of two-price plan for wool, under which a processing tax would be collected on all wool and the proceeds (or an equivalent amount from general revenues) paid to domestic wool producers.

The study "Feasibility of Financing Wool Price Supports by Means of a Processing Tax" was prepared at the request of the National Agricultural Advisory Commission in August 1953. The timing of this request was partly dictated by the fact that, during the preceding few months, foreign wool had been imported on a duty-paid basis at prices lower than the support level for domestic wool. As a result, Commodity Credit Corporation was acquiring a large percentage of the domestic wool clip, and the textile manufacturers were using abnormally large proportions of imported wool.

The second study in this section analyzes another type of two-price system which was proposed for dairy products. This proposal was also analyzed at the request of the National Agricultural Advisory Commission, this time in November 1953.

The third study was made as the result of a question raised by many farmers and students of farm problems: Can the marketing agreement principle, which apparently operates to the satisfaction of many specialty crop producers, be extended to cover some of the more important crops which are grown over wide geographic areas? If successful, this approach would presumably take the Federal Government out of acreage allotment and marketing quota programs and throw the full responsibility for price support, marketing, and production decisions upon democratically elected representatives of the producers of the commodity in question.

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The study, "Possible Uses of Marketing Orders for Wheat, Peanuts, Tobacco and Wool," was prepared in July 1953 in response to a question raised by Congressman Hope and some interest expressed at about the same time by the National Agricultural Advisory Commission.

A. Feasibility of Financing Price Supports for Wool by Means of a Processing Tax

In connection with its review of price-support policy, the National Agricultural Advisory Committee requested that further consideration be given to a proposed alternative to the existing price-support program for wool. This alternative involves the use of compensatory payments to producers in lieu of present price-support methods, these payments to be financed by means of processing taxes (similar to the sugar processing tax) which would replace the existing duties on wool.

Historically, the domestic wool industry has had the protection of tariffs on all imports of apparel wool and manufactured products. In addition, wool prices to domestic producers have been supported by the Department of Agriculture through purchases and nonrecourse loans to producers. At the present time, the tariff on the bulk of imported apparel wool amounts to 25½ cents per pound, clean basis. Prices received by domestic producers for wool are supported at 90 percent of parity by means of nonrecourse loans on shorn wool and purchases of pulled wool.

Principles of a processing tax-compensatory payment system

A self-supporting United States wool program could be developed that would rely on a processing tax on both imported and domestic wool as a source of funds from which payments would be made to producers to maintain their per-unit returns on wool at a given level (say 90 percent of parity). The processing tax would be utilized in lieu of present duties on imported apparel wool and the compensatory payment method of maintaining returns to growers would replace the present type of price-support operation. The processing taxes, while going directly to the United States Treasury, would be sufficient to pay the costs of the compensatory payments to producers and (if desired) the administrative costs involved in collecting the taxes and making the producer payments. At the same time, the processing taxes would be considerably less of a burden on domestic consumers than is the incidence of the present duty. In recent years, imports have accounted for nearly two-thirds of our total wool consumption (table 1).

Constitutionality of tax and payments

The legal aspects of this program appear to be as follows:

The tax would be an excise tax upon a manufacturing process for revenue purposes and in no sense a regulation of the process itself. Therefore, the imposition of the tax would be a valid exercise of the taxing power of the Federal Government. The proceeds of the tax would go into the general fund of the Treasury and would be available for any purpose for which the Congress may lawfully appropriate money. It is clear that the power of Congress to spend for the general welfare extends to appropriations for purposes such as payments to the wool producers. The fact that the annual appropriations for

payments to producers would approximate the amount of tax money collected each year would not invalidate the legislation. Moreover, the same statute which levies the excise tax could also authorize the annual appropriations to make the proposed payments.

The case of *United States* v. *Butler* (297 U. S. 1), in which the Supreme Court invalidated the processing taxes imposed under the Agricultural Adjustment Act, is not in point. That law was held to be invalid because the sole aim of the statute, as shown by its terms, was to regulate crop production, a matter wholly within the powers reserved to the States under the 10th amendment to the Constitution. The proposed legislation would have no such aim.

Suspension and snapback of duty: Section 22 action

As long as such a system remained in effect, the present import duty on wool (statutory rate 34 cents, trade agreement rate, since January 1, 1948, 25½ cents per pound of clean content) could be suspended. No need would arise under this system for import fees under section 22. However, provisions should be made for the wool tariff to become automatically effective again if the self-supporting wool program should be terminated. If needed, such a reinstitution of the wool tariff should be accompanied by a supplementary import fee under section 22.

TABLE 1.—*United States production, imports and consumption of apparel wool, 1935–39 average, and annual 1946–52*

[Clean basis]

Years	Production	Imports	Consumption	Imports as a percent of consumption
	Million pounds	*Million pounds*	*Million pounds*	*Percent*
Average 1935-39	207	53	281	17.8
Annual:				
1946	170	473	610	76.6
1947	153	259	526	49.0
1948	137	246	485	50.7
1949	120	155	339	45.7
1950	119	250	437	57.2
1951	119	272	382	71.2
1952	127	248	347	71.5

Determination of payments to producers

Effective operation of such a self-supporting system would call for legislation to authorize the Secretary of Agriculture to make such payments. The rate of payments would be that needed to give producers, upon presentation of a receipt of sales in the market place, such level of returns as provided for in the law. Payments to producers would be made at whatever time was determined to be administratively most desirable. If it were deemed desirable, partial payments could be made some time prior to the end of the marketing season.

The payment rate might be set in such a manner that producers would be assured of the desired level of support at all times. Or the payments might be such as to assure producers the minimum desired level of support at times of low world prices and up to 100 percent of parity at times of higher prices.

A third alternative would set a minimum payment rate of 25.5 cents per pound, clear basis (which would be equal to the basic rate of the present import duty) and would raise the payment rate above the minimum when and to the extent needed to give producers the desired level of support.

The processing tax

As in the Sugar Act (which provides for a processing tax on both the imported and the domestic product and for payments to producers), the rate of the processing tax should be fixed in the law at a level high enough to cover the prospective costs of the system, including collection of the tax and payments to producers. On the basis of past experience, it is believed that ample provision for such costs under any of the three alternatives given above in the case of wool could be made by a tax of 15 cents per clean pound at a given point in the processing system. Since domestic consumption of apparel wool is about three times as large as domestic wool production, such a tax could, on an average, finance payments to producers up to 45 cents per clean pound (about 20 cents per pound, grease basis). If need should arise, the tax rate would have to be changed by congressional action unless provision were made for such changes in the enabling legislation.

Mechanics of the tax

A processing tax should be based on the clean content of raw wool, similar to the present tariff application, regardless of the state of preparation and regardless of origin. The collection of the processing tax should be made at a given point in the system which would be most practical from the point of view of ease and accuracy of collection. The assessment and enforcement of the processing tax appears to be administratively feasible. If it were to be undertaken, a working committee of Agriculture, Commerce, and Treasury with industry member consultants should draw up details, the chief objective being that of determining the schedule of tax rates needed and the point of collection.

The ad valorem tariff on wool manufactures, protecting processors of wool, would remain and would be collected upon entry together with a compensatory processing tax on the raw wool equivalent of the imported manufactures.

Benefits to producers, consumers, and importers

A tax of 15 cents, combined with a suspension of the 25.5 cents import duty, would reduce the cost of wool to domestic mills by 10.5 cents as compared with the present tariff system. Because of the pyramiding of trade markups, the benefit to the ultimate consumers might be substantially greater.

The lower costs for wool would materially help the competitive position of wool vis-a-vis synthetic fibers (table 2) which the wool tariff was never intended to protect. A resulting higher level of wool consumption in the United States would encourage domestic production and also allow larger imports without harm to domestic wool producers.

This system would also make domestic wool prices more competitive with those of foreign wools. As a result, it would permit the exportation of grades of domestic wool that are less desired by the domestic market. These grades could be exported without a loss to the Gov-

ernment. The payments out of the processing tax would raise producer returns from the exported wool to the support level just as in the case of the wool which they sold domestically.

Section 32 fund

As regards the section 32 fund, from which increased disbursements may have to be made in the coming years, the Department could perhaps be compensated for the loss of its share of proceeds from the wool tariff by means of raising the allotment of total tariff revenues to the section 32 fund to 35 percent from the present 30 percent.

Some disadvantages

Several advantages to the proposed system of processing tax and compensatory payments have been discussed above. The following are some apparent disadvantages of such a system:

1. Suspension of import duties would result in a reduction in the revenues into the United States Treasury and therefore to the section 32 fund. During the past 5 years customs receipts on wool have ranged from 38 to 66 million dollars, 30 percent of which has automatically gone to section 32.

2. The inauguration of such a system would require special legislation authorizing the processing tax and also the payments to producers. Legislation would be required periodically to permit the renewal of such a system.

TABLE 2.—*Price per pound of wool and man-made staple fiber, United States, 1935–39 average, 1946–52*

Year	Wool				Man-made staple fiber					
	Fine		Medium		Cellulosic		Noncellulosic [1]			
	Imported [2]	Domestic [3]	Imported [4]	Domestic [5]	Viscose [6]	Acetate [7]	Orlon [8]	Dynel [9]	Vicara [10]	Vinyon [11]
	Cents	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*
1935–39 average	92.7	84.4	82.3	71.9	28.3	52.6				
1946	101.6	102.6	102.0	91.4	25.4	39.1				
1947	128.4	124.2	111.6	107.0	32.0	47.8				
1948	185.4	164.6	134.3	107.6	36.4	48.0				
1949	195.8	166.4	128.5	112.8	35.8	42.9			86.5	
1950	224.2	199.2	161.9	151.0	36.1	42.7		125.0	83.2	86.2
1951	284.6	270.5	250.9	215.2	40.0	48.0		125.0	99.3	90.0
1952	175.5	165.3	137.3	128.7	39.5	42.4	190	127.3	100.0	90.0
June 1953	203.0	174.8	129.7	132.0	34.0	39.0	190	128.0	100.0	90.0

[1] List prices included for noncellulosic staple fibers other than those in the table as of June 1953 were as follows (in cents per pound):

Acrilan, 3 and 5 denier, freight prepaid east of Mississippi River, 1.5 percent moisture regain	185
Dacron, 1.5 denier, 1" to 5", semidull, f. o. b. shipping point, 0 percent moisture regain	225
Dacron, 3, 4.5, and 6 denier, 1" to 5", bright and semidull, f. o. b. shipping point	180
Nylon, 1.5 denier, not crimpset, 4.5 percent moisture regain	175
Nylon, 1.5 denier, crimpset, 4.5 percent moisture regain	185
Nylon, 3 denier, not crimpset, 4.5 percent moisture regain	170
Nylon, 3 denier, crimpset, 4.5 percent moisture regain	180
Nylon, 6 denier, not crimpset, 4.5 percent moisture regain	170
Nylon, 15 denier, not crimpset, 4.5 percent moisture regain	175

[2] Australian 64's, 70's good topmaking, clean basis (American yield), duty paid, Boston.
[3] Domestic territory fine good French combing and staple, clean basis, Boston.
[4] Montevideo super 1's (56's), clean basis, duty paid, Boston.
[5] Domestic territory ⅜ blood good French combing and staple, clean basis, Boston.
[6] 1½ denier, 11 percent moisture regain.
[7] 5 denier, 6.5 percent moisture regain.
[8] 3, 4.5, and 6 denier, f. o. b. shipping point, 1.5 percent moisture regain.
[9] 2, 3, 6, 12, and 24 denier, all lengths, f. o. b. South Charleston, W. Va., 0 percent moisture regain.
[10] 2, 3, 4, 5, and 7 denier, ½- to 6-inch length, f. o. b. Taftville, Conn., 10 percent moisture regain.
[11] 3 and 5.5 denier, ½- to 4-inch lengths, 0 percent moisture regain.

Compiled from reports and publications of Bureau of Labor Statistics, Textile Economics Bureau, Rayon Publishing Corp., and U. S. Department of Agriculture.

3. Such a system would require specific appropriations each year to be made by Congress for payments to producers. In comparison, it may be noted that, in the case of sugar, such appropriations have not encountered difficulties.

4. From a public relations standpoint, compensatory payments might be more easily and widely recognized as a subsidization to the wool industry than is the present tariff and price-support system. But it is not clear that payments under the Sugar Act have met with any extensive adverse reaction.

5. Such a system would require considerable administration. However, it is not clear that administrative costs would be greater than those under the present system of tariffs and price supports.

B. Analysis of a Producer-Financed Dairy Price Stabilization Program

1. Description

In November 1953, the following proposal for a self-help type of price stabilization program for the dairy industry was announced. This program would be put into effect by an act of Congress which would authorize the establishment of a Board with authority to establish prices, to purchase and sell manufactured dairy products, and to levy fees on dairy farmers to cover the cost of carrying out the objectives of the act.

The proposed Dairy Stabilization Board would be composed of 15 members appointed by the President from 1 of 3 nominees selected by dairy farmers in each of 15 districts of the United States. This Board would have broad authority, including power to determine appropriate price levels for milk and butterfat in the United States, with or without public hearings, and to purchase butter, cheese, nonfat dry milk, and any other manufactured products deemed necessary to achieve the price objectives for milk and butterfat.

The activities of this Board would be financed by: (1) Authority to borrow up to $500 million from the Commodity Credit Corporation; (2) authority to borrow from any other source upon security of the dairy products which it may own or upon security of other assets or unsecured loans; and (3) assessments levied on milk and butterfat sold by farmers. Such assessments would be collected by the Internal Revenue Service from the first handler of milk or butterfat.

Products acquired by this Board, in general, could not be resold into domestic commercial channels at a price below that paid by the Board in removing the surpluses from the market. Certain conditions for selling below its purchase prices would be established, including sales to prevent deterioration or spoilage, sales for export, and sales for secondary or byproduct uses.

Certain conditions would be established covering the relationship of the Board's activities to functions now carried on by the Department of Agriculture. Stocks of dairy products owned by the Department at the beginning of the Board's activities could not be resold in normal trade channels without consent of the Board. Any contributions to the surplus position of dairy products as a result of increase in milk flow from diverted acreages [1] or from imports of dairy

[1] Acreages diverted from wheat, cotton, and corn production because of acreage allotments and marketing quotas on these crops.

products would be the financial responsibility of the Federal Government and not of this Board.

Other conditions of the relationship of the Board to the Federal Government also would be established by the act, including a provision whereby the Department of Agriculture would provide a central office for the organization.

2. Economic analysis

In the past 2 years use of milk in commercial channels and for feeding calves has been approximately 115 billion pounds per year. Farm production of milk, on the other hand, has tended to increase and will approximate 121 billion pounds in calendar year 1953. This has given rise to increased purchases of milk products by the CCC (Commodity Credit Corporation) under the price-support program. In the marketing year ended March 31, 1953, the CCC acquired the equivalent of a little over 3 billion pounds of milk, or about 3 percent of farm milk output. In the current marketing year price support removal will be about 8 percent of farm output.

Under demand conditions which prevailed in the 1952–53 marketing year, prices to farmers probably would have been depressed to around 85 percent of parity, if there had been no surplus removal program. In the current marketing year free-market conditions probably would have yielded around 75 percent of parity, assuming previous surplus stocks would not have been placed on the market. Roughly speaking, each additional increase of 3 percent in the supply of milk products offered consumers would entail a decline of about 5 percentage points in the actual farm price of milk relative to parity.

The operation of the producer-financed stabilization program may be illustrated by assuming the purchase and diversion of 3 billion pounds of milk in the form of butter and nonfat dry milk. This would cost about $136 million, using 65 cents per pound for butter and 16 cents per pound for nonfat dry milk. If the Stabilization Board took a 100-percent loss on its stocks, the stabilization fees would be about 14 cents per 100 pounds of whole milk or about 3½ cents per pound of butterfat sold as farm-separated cream. As an outside figure, then, assuming no recovery or diversion sales, the stabilization fee would need to be raised about 14 cents per 100 pounds of milk for each increase of 5 parity percentage points in the amount by which the support level exceeded the probable free-market price.

However, it is unlikely that the Stabilization Board losses would ever approach 100 percent of product cost under the proposed bill. The bill provides that the CCC shall take over, or reimburse the Board for losses on dairy products equivalent to imports and production from acreage diverted from commodities subject to allotments or quotas; and that Federal programs for distributing dairy products "shall give due consideration" to obtaining them from the Board. These outlets, together with sales in foreign markets, or in domestic outlets which would not interfere with market prices, would normally permit the Board to recover a substantial percent of its outlays. Losses by CCC on dairy products during the period of relatively high economic activity between January 1, 1949, and March 31, 1953, amounted to 43 percent of the cost of the commodities disposed of.

If we assume that losses which the Stabilization Board might incur in maintaining spreads of 5, 10, and 15 percent of parity between the

support level and probable free-market prices are 30, 45, and 60 percent, respectively, the corresponding stabilization fees required would be about 4, 13, and 25 cents per hundred pounds of milk. (The increasing rate of loss with larger surpluses reflects the decline in prices at which additional quantities of export sales could be made, and increased diversions domestically on which no recovery would be possible.)

Five percent of parity on the price received by farmers for whole milk is now about 23 cents per hundred pounds. The difference between this amount and the stabilization fee would measure the net benefit to farmers from the program. This may be illustrated in tabular form as follows:

[Cents per 100 pounds]

(1) Excess of price objective above free-market level	(2) Increase in farm price of milk above free-market level	(3) Approximate stabilization fee needed to cover diversion losses	(4) Net increase in returns to milk producers relative to free-market level
Percent of parity:			
5	23	4	19
10	46	13	33
15	69	25	44

The figures in columns (3) and (4) are only rough estimates, and may well be overoptimistic. In particular, the assumed recovery on diversion operations is based on more extensive exportation than has been achieved heretofore. The recovery on diversion operations may well be smaller than assumed here; also, the increase in income from domestic sales could well be smaller than has been assumed. Evidence on both of these points is inconclusive, in the sense that any estimates relating to them are subject to a sizable margin of error.

If the price objective of this program were set at 90 percent of parity under 1953–54 conditions, the figures in the third row of the table would roughly apply. The actual net prices to farmers under the producer-financed program would be less than the nominal price objective by the amount of the stabilization fee, and less than with a Government-financed program in which none of the costs would be assessed directly against farmers. One result would be a slightly smaller production under producer-financed than under Government-financed supports with a given nominal support level of price objective.

Disposition of products acquired by the proposed Stabilization Board would raise about the same problems as would disposition of the same quantities under present programs. Quantities that can be disposed of in domestic outlets without affecting domestic prices are limited. Sales could be made in foreign markets at less than domestic prices, but entry of the United States into foreign markets with surpluses of about 150 million pounds of butter (the equivalent of 3 billion pounds of milk) or more would tend to lower the world price. During 1953, exports of dairy products from the United States totaled little more than 1 billion pounds milk equivalent, including some special sales from CCC stocks. Attempts to move from 3 to 6 or more billion pounds milk equivalent into export channels would doubtless

meet with protests from other exporting countries, regardless of whether the exports were made by CCC or by a quasi-private Stabilization Board. (In evaluating these protests, however, it must be recognized that some other exporters of dairy products are already using similar devices. See sec. III, item 5, in this study.)

The proposed program contains no special provisions for limiting imports. However, CCC would be obligated to reimburse the Stabilization Board for its losses on quantities of products equivalent to any imports. The economic consequences of imports would remain the same as at present, and existing legislation relating to import controls would presumably be continued.

Imposition of a stabilization fee would have the same effect on dairy farmers as any other variable cash cost: they would absorb it or pass it on in the form of increased prices, in varying degrees, or they would discontinue dairying. Some would find that imposition of the fee would change dairying from a position of advantage to one of disadvantage relative to alternative enterprises. These dairymen would avoid the fee by shifting to the alternative enterprise, and dairy production would be reduced accordingly. Some dairymen still would have no close alternative, and they would absorb the fee. In fluid milk sheds, alternative enterprises are normally at a greater disadvantage relative to dairying than in manufacturing areas and milk production would be affected less by the fee. Any decline in production in fluid milk areas (assuming no change in consumption) would tend to increase the radius of the supply area and to increase the price f. o. b. the market. To this extent, the fee would be partially shifted to consumers.

3. Other problems and policy considerations

1. The proposal may involve some intraindustry conflicts.

(*a*) The benefits of the program are direct to producers of milk for manufactured dairy products (prices of which would be supported by Board purchases), but indirect to producers of milk for fluid use; yet the stabilization fee is levied directly on all producers. Producers of milk for fluid use are likely to be impressed more by the burden than by the benefits.

(*b*) Fluid milk producers receive higher prices than do producers of manufacturing milk. The latter may urge that the stabilization fee be proportioned to prices received rather than a flat rate per 100 pounds of milk.

2. The proposal would isolate the making of dairy price support policy from some of the pressures of conflicting interests which must now be recognized by the Department.

(*a*) High supports would stimulate imports, but the decision as to support levels would be made by an agency freed of any responsibility for the consequences of imports.

(*b*) The Stabilization Board, considering export programs with primary emphasis on net returns to dairy farmers, would be under less pressure to defer to a national policy with respect to foreign trade which might at times partially subordinate particular commodity interests to broader objectives.

(c) The Stabilization Board would be less subject to pressure from consumer interests than a Government-financed program would be.

(i) Consumers would not have added to their objection to the level of support the further objection of being taxed to pay the costs of surplus diversion.

(ii) Consumer representations to the Board would probably be less effective than to the Secretary or Congress.

3. The provision for segregating the production of milk on diverted acres focuses attention on the impact of a price-support program for one agricultural commodity on the economic status of other commodities. Making the estimates of production required by this provision would be extremely difficult and at best would be subject to a wide degree of error.

4. Over a period of time price support levels are likely to be governed mainly by the size of the stabilization fee that producers will tolerate.

5. The use of a Dairy Board as a quasi-public agency to stabilize returns to milk producers in principal dairy countries is not new. New Zealand, Australia, Denmark, the Netherlands, Sweden, and Switzerland, important dairying countries, employ similar mechanisms. In some of these countries imports are also "equalized." In some instances a stabilization fund is built up by assessment during favorable years to equalize returns in years less favorable. In other cases the Boards equalize returns from domestic sales together with export sales. In some cases the export prices are below the level of the domestic market and in some cases below a formulated cost of production.

These precedents might tend to hold foreign objections to the proposed program within reasonable bounds. However, the intensity of objections (and possible retaliatory actions in the form of tariffs, quotas, and export subsidies) would increase as the volume of United States exports rose.

6. There are sizable areas of the world with a deficit in supplies of dairy products that have in recent years stepped up their intake from abroad. Through concentrated efforts these areas could be developed as outlets for larger supplies from the United States as well as from other exporting countries. Consultations between countries would assist in getting these larger quantities placed in expanded foreign outlets.

7. The dairy price stabilization program would still depend upon Government to shoulder a considerable part of the existing dairy surplus problem.

(*a*) CCC would still have to take care of

(i) Existing price support stocks;

(ii) Any milk flow from "diverted acres"; and

(iii) An amount of milk equal to total dairy imports (about 0.5 billion pounds in 1953).

(*b*) CCC could not sell its own stocks at prices which would interfere with the Stabilization Board's operations.

(*c*) Federal distribution programs, as under section 32, "shall give due consideration" to obtaining dairy products from the Board.

C. Possible Uses and Effectiveness of Marketing Agreements and Orders for Wool, Tobacco, and Other Commodities Grown Over Large Geographic Areas

In June 1953, Congressman Hope raised the following question:

> Can more extensive use be made of marketing agreements and orders not only on the minor commodities where production is confined to fairly contiguous areas but on some of the commodities grown over rather large geographic areas such as wool, tobacco, et cetera?

Because of interest expressed by the National Agricultural Advisory Committee at about the same time, it was decided to examine this question for wheat and peanuts as well as for wool and tobacco. The four commodities will be discussed in turn.

Wheat.—Two uses of marketing orders have been suggested in the case of wheat. Under one, handlers of export wheat would divide the export market into: (1) The regular commercial market, and (2) a market in which buyers were not in a position to pay the full price. Under the other, marketing controls would be assumed by producers through their own organized effort replacing control by the Government's use of acreage allotments and marketing quotas.

It appears that marketing orders are not suitable in the case of wheat because wheat: (1) Is grown over too wide an area to organize the many handlers involved; (2) is divided into many classes with very different used (bread, pastry, macaroni, etc.); and (3) has no strong organization upon which to rely.

Marketing agreements and orders have been largely used in connection with fruits and vegetables, in which field it has been clearly demonstrated that success is related to area concentration. Even in the case of the raisin growers, concentrated in a few contiguous counties, it has been difficult for the governing board to reach agreements. And section 32 programs have been needed to supplement marketing orders for a number of commodities. Marketing orders regulate the flow of a commodity into its primary market, but they do not in themselves provide adequate means for dealing with the remaining portion of the crop.

In all cases the agreements have dealt with a single commodity. But the various kinds of wheat are to a significant degree different commodities with different problems of marketing and surplus disposal.

The formulation and development of a marketing agreement or marketing order is complicated and requires a great deal of interest and effort on the part of some organized group. Wheat is handicapped by not having a strong enough organization to take the leadership.

Experience has shown that the use of marketing agreements has not eliminated the need for production controls A good example is hops, where high prices, obtained through the use of marketing agreements, made production so attractive that the accumulation of surpluses has defeated the program.

Peanuts.—Operation of a marketing agreement and order for peanuts is possible but would face several significant handicaps. There can be an effective division between the edible or primary market for peanuts and the crushing or diversion market for peanuts. But one of the major problems arises from the large region in which peanuts are produced, stretching from Virginia through New Mexico,

and from possible conflicts of interest between the three areas of production.

Under the present system of marketing quotas and acreage allotments peanuts are produced for edible purposes and supported at 90 percent of parity. The surplus is held by Commodity Credit Corporation as a reserve for edible use or is diverted to crushing for oil and meal. The price in the crushing market fluctuates with the value of oil and meal, but during the past 5 years (1948 through 1952 marketing years) has averaged roughly 50 percent of the price in the edible market.

Several arrangements are conceivable under a marketing agreement and order for peanuts. In the first place, an agreement and order could be used in addition to marketing quotas and acreage allotments. (However, in no commodities today are both approaches used.) In the second place, a marketing order could be applied without marketing quotas, and could be based on either quality or quantity control.

A quality control program could prohibit edible use of lower grades of edible quality shelled peanuts. Approximately 17 percent of edible peanuts fall in this No. 2 grade. These No. 2 grade peanuts would then be crushed into oil.

Enforcement of this system would involve some difficulties. As there is no fixed outturn of No. 2 peanuts from a ton of farmers' stock peanuts and as some shellers also operate peanut butter plants, it might be possible for shellers to maintain that they obtained a smaller quantity of No. 2 peanuts than they actually did and to grind up the remainder into peanut butter. Once the No. 2 peanuts were ground into peanut butter it would be most difficult to determine whether the peanut butter contained No. 2 peanuts. One solution would be to establish a fixed percentage of the shelled peanuts from each ton of farmers' stock peanuts that must be diverted to crushing regardless of grade.

A quantitative control program could permit only a fixed quantity of farmers' stock peanuts to go into edible use and require all in excess of this quantity either to be held as a reserve or diverted to crushing by the control board or other group carrying out the order. Under this system growers would be paid an average price which would vary with the proportions of the total crop going into edible use and crushing respectively.

Peanuts are produced from Virginia through the Southeastern and Southwestern States to New Mexico. The areas of production are known as the Virginia-Carolina area, the Southeast area and the Southwest area. The production in the Virginia-Carolina area is concentrated in southeastern Virginia and northeastern North Carolina; the production in the Southeast area is concentrated in southwestern Georgia, southeastern Alabama, and northern Florida; the production in the Southwestern area is scattered in Texas and Oklahoma and in two counties in New Mexico. All together there are about 146,000 commercial producers of peanuts located as follows: Virginia-Carolina area, 30,000; Southeast area, 69,000; and Southwest area, 47,000. There are a total of 154 plants handling peanuts including shellers and crushers located as follows: Virginia-Carolina area, 37; Southeast area, 75; and Southwest area, 42. Since one company may operate several plants, the number of companies is something under 154.

With past programs under which growers were permitted to produce peanuts for crushing in excess of their acreage allotments, growers in the Virginia-Carolina area were willing to produce only small quantities at crushing prices whereas producers in the other two areas grew considerably larger quantities for crushing. The experience may indicate a difference between the areas that would make it difficult for growers to agree on a marketing program that would result in an average price for peanuts based upon uniform percentages for edible uses and for crushing in all areas.

A further complication is that different types of peanuts are grown in the different areas. The Virginia-Carolina area specializes in Virginia-type peanuts, the Southeast area in Runner and Spanish types of peanuts, and the Southwest area in Spanish-type peanuts. (Two counties in New Mexico produce Valencia-type peanuts.) Virginia-type peanuts provide the larger sized shelled kernels, and Virginia and Valencia types of peanuts provide the peanuts that are roasted in the shell. All types are used in salted peanuts, candy, and peanut butter.

The only experience with the use of a marketing agreement and order on peanuts was in 1933 under the Agricultural Adjustment Act of that year. Based upon their experience with this program, the shellers recommended against a program in 1934. Whenever there has been discussion of the marketing agreement and order approach for peanuts in the past, the growers have by and large been opposed to it.

Tobacco.—During the early years of the tobacco program acreage controls and marketing agreements were used together. The present tobacco program (using marketing quotas) is based upon experience gained from the earlier efforts. Marketing quotas have been in effect for the past 14 years on the two leading kinds of tobacco which make up about 87 percent of total United States tobacco production. In 1953 all eligible kinds of United States tobacco are under marketing quotas with the exception of Pennsylvania Seed leaf tobacco.

There are no substitutes for tobacco and the substitutability of most tobaccos, one for another, is relatively limited. The demand for a particular kind of tobacco is, therefore, primarily dependent upon consumer demand for the different tobacco products. Hence, the principal requirement of a tobacco program is an effective means by which production can be adjusted to meet demand. Under existing legislation, it is doubtful that marketing agreements could meet this need as effectively as marketing quotas.

Most tobacco products are blends of different types and grades of tobacco. Tobacco growers have achieved much success, through improved fertilization, cultural practices, and development of new varieties, in producing the grades and qualities of tobacco needed to meet manufacturing needs. With the exception of the fire-cured and dark air-cured types, United States tobacco is maintaining its absolute position in the export market. Variations in quality from one year to another, resulting from weather and other factors, generally do not present a serious problem. Tobacco is a storable commodity and the flow of specific qualities into consumption is fairly stable in spite of variations in production.

The marketing quota program, in the main, has achieved a high degree of acceptability among growers, tobacco dealers, manufac-

turers, and others in the tobacco-producing areas. The program has contributed to stability of income to growers and has meant a steadier and more reliable supply for manufacturers and exporters. The acreage allotment established for each farm is designed to represent each farm's fair share of the total market. Prior to incurring large production costs, every grower knows the acreage he can plant and sell without restriction. This is particularly important for tobacco since it is principally a product of labor. Around 500 man-hours are required to produce an acre of tobacco.

Should changing conditions, not foreseen at present, result in the accumulation of certain grades of leaf, the use of marketing agreements in conjunction with marketing quotas to prohibit the marketing of such grades might be advisable. Even this would present a serious problem since known diversion uses are limited. With the large number of growers (about 850,000 farm families) scattered over a large geographic area, it is doubtful that a marketing agreement and order could be administered to the satisfaction of tobacco growers unless it were used in conjunction with the marketing-quota program.

Currently, a marketing order is in effect for Georgia-Florida shade grown tobacco, type 62. This type of tobacco is grown for one special purpose, namely, cigar wrappers. Under this program, certain leaves undesirable for wrapper purposes, as determined by position on the stalk, are not harvested. This tobacco is grown in a relatively small area by a small number of growers. Under existing legislation, marketing quotas cannot be proclaimed for shade grown tobacco.

Wool.—Wool is produced in the United States only to the extent of supplying around one-third of our domestic requirements, with two-thirds of our needs being met from imported wools, our principal suppliers being Australia, New Zealand, South Africa, Argentina, and Uruguay. Because of our dependence on foreign-produced wool, a marketing agreement or marketing order applying only to domestic growers would not be a practical way to establish and maintain prices to domestic producers at the parity level or any other level of price. Domestic wool prices are directly affected by world supply and demand conditions for wool and by the tariff rates. Hence, even if domestic growers and handlers would approve the issuance of a marketing agreement or order, unrestricted imports of wool would make such agreements completely ineffective.

Quantitative restrictions on imports of wool sufficient to achieve the desired price effects, even in connection with marketing agreements on wool, would not be desirable. Domestic demand for wool is such as to require a wide selection of grades and classes of wool and it would not be administratively feasible to determine the kinds and qualities of wools desired for the domestic trade or the quantities to be allocated to the various countries of origin. To attempt to make such allocations for purposes of quantitative restrictions would adversely affect the long-time demand for wool and probably would be to the benefit of competing fibers.

It is possible that a marketing agreement could be used in addition to some type of Government price-support program. One object of such an agreement, unsupported by a marketing order, might be to improve the preparation of domestic wool for market, involving greater

care particularly on the part of the signatory producers and handlers. If a marketing order were also adopted, the program could be made applicable to all producers and handlers. If existing legislation were amended, a marketing agreement and order might be used for additional purposes, such as financing advertising and trade-promotion programs, research, and statistical reports (as on the quality and preparation of fleeces marketed in different localities).

It is doubtful whether wool producers are prepared to support a marketing agreement and order program at the present time. However, this point can only be decided by wool producers and their organizations.

IV. MULTIPLE-PRICE PLANS

Introductory Note

During the early months of 1953, there was a strong resurgence of interest in two-price or multiple-price plans, particularly for wheat. This approach was seen by many as a possible means of avoiding acreage restrictions on wheat and of regaining our position in the export market, which was rapidly shrinking during the 1952–53 marketing year.

The multiple-price principle is by no means new. Our present export subsidy on wheat establishes a lower price to buyers in other countries than to those in the United States. However, in recent discussions the phrase "two-price plan" has been applied almost exclusively to plans which were self-financing in the sense of entailing little or no cost to the Federal Treasury.

Two-price plans of the self-financing type had been actively pushed during the 1920's, and bills embodying this principle passed both Houses of Congress on 2 different occasions. Though these attempts in the 1920's were defeated by Presidential veto, the two-price principle was actually adopted in 1933, and operated on a number of major commodities until it was invalidated by the Supreme Court in January 1936. The basic mechanism was the collection of a processing tax on the domestically consumed portion of each commodity, the proceeds of which were distributed to producers. Payments were conditioned, however, upon compliance by producers with whatever acreage restrictions were in effect for the crops in question. This tie-in of the processing tax with production control constituted the major basis for the famed Butler (Hoosac Mills) decision, in which this program was declared unconstitutional. It seems highly probable that the two-price principle could be put into effect in ways which would be found constitutional. (See, for example, the study entitled "Feasibility of Financing Price Supports for Wool by Means of a Processing Tax.")

During the 1920's, it was generally assumed by proponents of two-price plans that the export market could absorb any excess of domestic production over domestic requirements without seriously lowering the world price level. While this assumption was challenged at the time, it seemed even more questionable in the present world situation, with extensive import controls, exchange controls, and so forth.

At its June 29–July 1 meeting, the National Agricultural Advisory Commission requested the Department to make a background study of alternative proposals for two-price plans on wheat and cotton. A few days earlier, Congressman Hope had made a similar request. The first study in this section, "Multiple-Price Plans for Wheat and Cotton," was prepared during July and August 1953. This was extensively discussed by the Commission at its next meeting and a similar study was requested on the possibilities of a multiple price plan for rice. At a subsequent meeting, some members expressed concern as to the

implications of the particular two-price mechanism which seemed most adaptable to cotton and which, at least on the surface, offered some possibilities in the case of wheat. The two studies on "Plans Involving Negotiable Certificates with Fluctuating Market Value" were prepared during October and November 1953.

The other studies deal with special problems which were byproducts of the two-price approach. It seems clear that a two-price plan with no acreage restrictions or market price supports would result in a considerably larger use of wheat for feed in this country. This would mean increased competition for producers of cash corn and other feed grains, although the magnitude of this threat is often overestimated. As of September 1953, it appeared that many corn producers would accept fair competition from feed wheat but, particularly in view of the existing wheat surplus, they would want protection against unfair competition. This led the Commission to request a study on price support levels for feed wheat. The second study discusses bases for distributing a national marketing certificate allotment for wheat among the individual farmers who would share in it.

A. Basic Studies

1. MULTIPLE-PRICE PLANS FOR WHEAT AND COTTON

A. Summary

I. OBJECTIVES

The multiple-price plans aim at—

(1) Maintaining the price for primary domestic use at a fair level (most propose 90 or 100 percent of parity), and

(2) Promoting exports and secondary uses at home by means of selling at competitive prices. (Some propose CCC loans at 60 percent of parity, or, in the case of wheat, at the support price for corn.)

II. ALTERNATIVE METHODS: EXPORT AND DIVERSION PAYMENTS OR MARKETING CERTIFICATES

Some proposals rely on export and diversion payments, financed out of Treasury revenues or through a processing or sales tax. Others keep the price for primary domestic use above that for exports and secondary uses at home by means of marketing certificates.

III. PRINCIPAL CERTIFICATE PLANS

Among the latter group, usually referred to as certificate plans, three types deserve special attention.

1. The fixed-value certificate plan

This plan, as applied to wheat, would allot marketing certificates to producers equal in total to the estimated domestic food use. These certificates would have a value (per bushel of wheat) equal to the differential between the estimated average price received by farmers in the market place and an estimated parity price. Processors of wheat for domestic food use would have to buy certificates. The economic effect of this would be the same as that of a processing tax and producer payments.

A CCC loan at 60 percent of parity (or the support price for corn, whichever is higher) would support the market price.

The allotments would assure producers of definite shares in the primary domestic market (food use in the case of wheat). The benefits therefrom would tend to be capitalized. Up to the allotments, production patterns would tend to be frozen. Adjustments would, however, be stimulated for production in excess of the allotments, which could receive only the free-market price or a relatively low CCC loan.

In determining the certificate value for a given crop prior to the beginning of the marketing year, errors would be unavoidable. Some rigidities would result. Deviations of actual price, after taxpayment, from the "fair" price would meet with objections. In the case of cotton, significant deviations might also affect its competitive position in relation to synthetic fibers. Errors could, however, be corrected from year to year.

2. The blended-price plan

This plan would, in effect, levy a tax on the first purchase of the commodity. It would give producers a "blended" price by distributing the tax receipts among them on the basis of their current total production, irrespective of the ratio of such production to any historic base. There would be no floor under the free-market price.

The "blended" price, while avoiding freezing of production patterns, would probably provide less incentive to production adjustment than would allotments.

Certificate values would be fixed on the basis of the same advance estimate as under the previous plan. The same risks of error and the same rigidities would be encountered.

3. The fluctuating-value certificate plans

Domestic marketing certificates would be issued to producers on an allotment basis.

Trading in the commodity itself would be free from Government intervention. Processors would, however, have to acquire certificates for such quantities of the commodity as they sold (in processed form) for primary domestic use.

Since the certificates would be transferable, a market would probably develop for them. In this market, the processors would be the buyers. The price of the certificates would tend to be the difference between the "fair" price and the free-market price of the commodity.

Since no value tag would be attached to the certificates, there would be no need for advance estimates of market prices and no risk of errors from this source. There would also be none of the rigidities of the plans involving fixed values of the certificates.

Since processing for primary domestic use would be limited to the allotment for which certificates were issued, it would be necessary to increase this allotment above the expected consumption by a "safety margin" so as to avoid an artificial scarcity of domestic supply. For wheat, the food consumption of which is fairly stable, this margin could be relatively small. For cotton, it would have to be larger, because of considerable fluctuations in the level of domestic demand. Any excess allotment resulting from the "safety margin," or a drop in consumption, would accrue to CCC under the loan program. Next

year's allotment would be adjusted so as to keep CCC's carryover about equal to the "safety margin."

One version of this plan would have exports and sales for secondary domestic use unregulated and unsupported. Another version would provide for some limitation on such sales and for some support of the sales price.

IV. CONDITIONS OF SUCCESS OF THE CERTIFICATE PLANS

Benefits in the primary domestic market would be secured only if the gains from a "fair" price exceeded losses from smaller sales that might result from maintaining such a price. Sales of wheat for food would not shrink if the price were raised to 100 percent of parity. Raising the price of cotton to such a level would, at least in the long run, affect domestic consumption of cotton, especially its industrial use. Raising wheat and cotton prices for primary domestic use, while lowering them for exports, might meet with consumer resistance.

Benefits in the export market and in a secondary domestic market would be secured only if the gain from larger sales there exceeded the loss from selling at lower prices.

Exports of wheat could not easily be increased by price concessions, because of (i) inelasticity of import demand and of supplies from other exporting countries; (ii) aggressive sales systems of other exporting countries; and (iii) little prospect, as far as most of the traditional wheat-importing countries are concerned, of admission of larger quantities of wheat imports at lower prices. A price war might cause our export prices to drop to the feed-price level, without bringing an expansion of exports large enough to compensate for the loss in price. To avoid this, an understanding with other interested countries might have to supplement the present International Wheat Agreement. Their relatively greater dependence on foreign markets should make other exporting countries interested in such an understanding.

Sales for feed could dispose of the excess of a wheat crop over food use and exports.[1] Corn and other feed producers are likely to oppose this, especially if they, themselves, encounter marketing difficulties. A floor under the feed-wheat price, slightly above the corn price support but still low enough to encourage wheat feeding outside the principal corn-feeding area, could reduce such opposition; but feeding opportunities for wheat would then increase less.

Exports of cotton could probably be considerably expanded by a multiple-price system, especially because foreign production has tended to shrink when prices decline.

At home, cotton would be less affected by competition from synthetic fibers, if it were sold at lower prices in the more vulnerable segments of the industrial-use market.

Production control could be avoided for wheat only if the multiple-price system sufficiently encouraged sales for feed, and for cotton, if it did not set too high a floor under the "competitive" price and if world economic activity remained high.

Processors for export would, of course, have to be put in a position to obtain wheat or cotton at "export" prices (i. e., without having to pay a processing tax or to buy domestic marketing certificates).

[1] Assuming that a multiple-price system would result in wheat production averaging about 1,100 million bushels, of which 500 would be used as food, 75 as seed, and 300 for export, feed use would have to dispose of 225 million bushels—or 125 million bushels more than at present.

Even though section 22 quotas are in effect on wheat and cotton, their importation under a multiple-price system, both in raw and in processed form, would have to be subject to the same requirements regarding taxpayments (or purchases of certificates) as sales of domestic products.

V. COMPARISON WITH OTHER PROGRAMS

Compared with uniform high supports, the certificate plans could bring about some production adjustments, increase sales in the export market and in a secondary domestic market, and reduce the need for production restrictions and Government control; but per unit returns from sales in export and secondary domestic markets would be lower. The most important difference is that the burden of a certificate plan upon general Treasury revenues would be substantially smaller than that of present programs.

Compared with flexible supports, the certificate plans could assure higher per unit returns in the primary market (for wheat, without loss in sales; for cotton, at the cost of some loss of sales there), and larger sales in the export market and in a secondary domestic market, though perhaps there only at prices below the lowest floor to be expected under flexible supports. A combination of flexible supports for commodities that rely primarily on the domestic market (such as feed grains) with certificate plans for prominent export crops (such as wheat and cotton) might be most effective in securing production adjustments.

Prolonged, large-scale export subsidization from Treasury revenues could give producers higher per unit returns than the certificate plans, but they would make farm income dependent on appropriations. Drastic production restrictions might be required to reduce the expense to the taxpayer.

B. Evaluation of Principal Certificate Plans

1. THE FIXED-VALUE CERTIFICATE PLAN (THIS VERSION ORIGINALLY DESIGNED FOR WHEAT ONLY, BUT COMMENTS ARE MADE FOR POSSIBLE APPLICATION TO COTTON)

1. Principal provisions

(1) Producers would receive "marketing certificates." The total issue of such certificates would equal the estimated domestic consumption of wheat for food (about 500 million bushels). By means of these certificates, producers would be allotted shares on a normal production basis, i. e., each wheat producer would share in the total issue of certificates in the same ratio that his normal production bears to the national production. The value of these certificates per bushel would be equal to the difference between the estimated average price received by farmers in the market place and an estimated parity price for the marketing year, not to exceed, however, 60 cents per bushel.

(2) Processors would be required to purchase certificates equal to the wheat equivalent of first sales of flour. The value of the certificate would be equal to and determined in the same manner as the value of the marketing certificate issued to producers.

(3) The economic effect of allocating certificates to the producers and requiring processors to purchase certificates would be the same as that of a system using producer payments financed by a processing

tax to make up for the difference between market price and "fair" price.

(4) To determine this differential, the Government would have to estimate (*a*) total United States wheat production; (*b*) prospective demand in the domestic market for food; (*c*) prospective demand and supply conditions in the secondary markets, i. e., the domestic market for feed, and the export market; and, (*d*) prospective average free-market wheat price during the forthcoming marketing year.

These estimates would be made 45 days before the beginning of the marketing year.

(5) A relatively low floor would be placed under all sales by means of a CCC loan. The minimum loan rate would be 60 percent of parity or the loan rate for corn, whichever is higher.

(6) To assure producers of the full value of their certificates, the Department of Agriculture would stand ready to buy them at face value.

2. Comments

(*a*) Allotment of marketing certificates in terms of bushels of wheat (and pounds of cotton) to individual producers on a historic base would—

(1) Give each of them an assurance of a "fair" price for the allotted quantity;

(2) Result in a capitalization of the allotment benefits in favor of present owners and to the disadvantage of future buyers;

(3) Tend to freeze production patterns up to the certificate allotments (unless farmers were assured of keeping their allotments even though they should temporarily produce something else).

(4) By giving the farmer only the free market price for production in excess of his allotment, it would create an economic incentive for voluntary shifts of acreage from wheat and cotton to more advantageous uses. Producer groups who sell all their production in the primary domestic market may construe this system as cutting their share in this market in order to assure an equal share in the benefits from this market to producers who traditionally have sold in secondary markets. Yet present marketing quotas follow the same principle, and they do not allow any sales in excess of the quota. Moreover, in the absence of any price support, producers who lost foreign markets would immediately turn to the domestic market, and their sales would depress prices there.

(*b*) *Supply of the primary market.*—Irrespective of the consumption estimate, processors could obtain as many certificates as required to cover their processing for domestic consumption.

(*c*) *The secondary markets.*—For wheat, a CCC floor equal to or possibly moderately above the support price for corn could, in general, be maintained without the risk of large stock accumulations by CCC. Even at such price levels, exports would, except for crop failures abroad, continue to meet with sharp competition. Thus, wheat surpluses would have to be disposed of mainly in the feed market.

For cotton, the floor should be low enough so as not to result in accumulation of large CCC stocks under conditions of a high level of world economic activity. A floor equal to 60 percent of parity might

fulfill this condition after some transition period. During this period, further stocks might accumulate in the hands of CCC because production in foreign countries would only gradually be adjusted to a lower level of prices in international trade. Moreover, other exporting countries which at present hold larger than usual stocks may press for liquidation of these stocks prior to and during the first few years of a multiple-price system for cotton in the United States.

(*d*) *Limit on certificate value.*—Under present conditions, adding the maximum certificate value of 60 cents per bushel of wheat to the support price of corn ($1.60) would give producers for their allotment a minimum support price of $2.20 (or about the present support price for wheat), but not the parity price of $2.42. The minimum support level in the future would depend on whether the old parity were continued or replaced by the new parity (now about 15 percent lower than the old) and on the future level of the support price for corn.

(*e*) *Risk of errors.*—Advance determination of certificate values will involve the risk of errors, such as too high or too low estimates of our own crop, of the crops of other countries (some of which are harvested later than ours), of import needs of foreign countries (which tend to fluctuate considerably) and, insofar as cotton is concerned, also of United States consumption.

Such risks would, of course, be minor during periods of persistent surplus when free-market prices would tend to be at about the support price (say 60 percent of parity). Producer income in a marketing year could, however, be substantially affected if the advance estimate were made in the expectation of relatively short supplies and, therefore, the certificate values were set low, but subsequently supplies turned out to be much larger and market prices dropped. The reverse type of error would adversely affect the position of consumers.

(*f*) *Rigidities.*—If market prices should increase sharply during a marketing year, the price of the commodity, including the certificate value, might be substantially below the "fair" price at the beginning of such a year and substantially above at the end of the year. The reverse might happen if market prices should decline sharply during a marketing year.

Moreover, the certificate value might change considerably from the last day of one marketing year to the first day of the next marketing year. The result might be that, as soon as such change became known, a tendency would develop for old-crop prices to rise or fall correspondingly.

II. THE BLENDED-PRICE PLAN

1. Principal provisions

(1) Prior to the beginning of each marketing year, the Government would have to make the same estimates as required under the previous plan.

(2) On the basis of such estimates, the Government would determine the differential between the average free-market price of wheat (reduced to the farm level) and the parity price.

(3) The first buyer of wheat would have to obtain a marketing certificate from the United States Treasury. For this certificate, he would pay an amount equal to the differential. In effect, this would be a purchase tax.

(4) The certificates would move with the wheat to the processor (who would file them with the Government), and to the exporter or the seller in the feed market (who would receive a refund of the tax).

(5) A stub would be attached to each certificate. The first buyer would give this stub, free of cost, to the producer-seller, who would cash it. The value of the stub would be equal, per bushel of wheat, to the parity differential times the percentage of the total United States crop sold in the primary market. If, for example, 500 million bushels of a crop of 1,200 million bushels were sold in the primary market, and if the free-market price (reduced to the farm level) were $1.62 and the estimated parity differential 80 cents (assuming parity to be $2.42), the payment to the producer would be 33 cents and the total producer return (market price plus payment), $1.95. This would, in effect, be a "blended" price equal to the weighted average between the prices in the primary and the secondary markets.

(6) No limit would be placed on the quantity of sales in the export or the feed market, nor would a floor be put under the prices in these markets.

2. Comments

(*a*) *"Blended" price.*—Unlike the certificate allotments under the previous plan, this plan would give all producers the same "blended" price irrespective of the ratio of their current crop to the production history of their farms.

The result would be—

(1) No freezing of production patterns;

(2) No capitalization of allotment benefits;

(3) Less incentive to shift out of wheat or cotton production. This would be so especially if the price in the primary market were raised to 100 percent of parity. If, for example, two-thirds of the cotton crop were sold at home for 100 percent of parity and one-third abroad for 60 percent, the "blended" price would equal 87 percent. Thus there would be practically no incentive to production shifts.

(4) As a consequence of (3), the risk of overproduction would be likely to be greater than under either of the plans involving certificate allotments for the primary market.

(*b*) *The secondary markets.*—There would be no price floor under the secondary market.

For wheat the United States feed price would tend to become the floor; but in the absence of a loan program for wheat, wheat prices might drop substantially below such floor at the beginning of the marketing year even though some floor were maintained under corn and other feed grains.

For cotton, prices would drop until an equilibrium was established between demand and supply in the world market. Since foreign-production adjustments to a drop in world prices would tend to come in subsequent seasons, and excess stocks in some foreign producing countries would press on the market, cotton prices might tend to be very low during the transition period until stocks and production abroad had been adjusted to the new competitive situation.

(*c*) *Payments for the marketing certificates.*—In obtaining marketing certificates, the first buyer would have to pay to the United States Treasury an amount equal to the full differential between the estimated

free-market price and the "fair" price. In the case of wheat, the 60-cent maximum of the previous plan might be substantially exceeded, at least under the old parity formula.

(*d*) *Risks of errors and rigidities.*—In these respects, the situation would be substantially the same as under the previous plan.

III. THE FLUCTUATING-VALUE CERTIFICATE PLANS

1. Principal provisions

(1) "Domestic marketing certificates" without a value tag would entitle the holder to sell a certified quantity for primary use at home.

(2) Each producer would share in these certificates in proportion to his proven marketings in a previous period, say the last 3 years.

(3) The certificates would become freely transferable in the hands of the first buyer from the producer or from the CCC.

(4) No tax would be levied, and no payments would be made to producers by the Government. Instead, producers would be assured of a "fair" price in the primary market (90 percent of parity under one version and 100 percent under others) by means of special CCC loans. For these loans an equivalent amount of certificates would have to be pledged together with the commodity.

(5) One version would provide a floor under sales for exports or secondary use, and it would limit such sales quantitatively. Other versions would do neither.

(6) Since there would be no tax rate and no payment to fix, no advance estimates of price trends would be needed.

(7) A market would probably develop for these certificates, in which they would sell at about the difference between the "fair" price and the free-market price of the commodity.

2. Comments

(*a*) *Allotments.*—In this respect the situation would be the same as under the "fixed-value" plan.

(*b*) *Supply of primary market and CCC operations there.*—The risk of an artificial scarcity due to too low a consumption estimate could be avoided by adding a "safety margin" to this estimate. This would not depress the price in the primary market below the support price as long as CCC stood ready to absorb any excess of the allotted supply over consumption requirements.

In the first year, supplies for the "safety margin" might be drawn from CCC stocks accumulated under the present support program. In subsequent years, consumption estimates would be adjusted as needed to prevent CCC reserves for the primary market from increasing beyond or dropping below the "safety margin." Thus any "surplus" accumulation would be prevented.

The "safety margin" for the primary market could be relatively small for wheat, where consumption (for food) is stable, but it would have to be larger for cotton, where consumption fluctuates considerably.

(*c*) *Price floor under secondary markets.*—If no floor were established the problems would be similar to those encountered under the blended-price plan. If a price floor were established, the problems would be the same as under the fixed-value plan.

A quantitative limit on exports, or on sales in secondary markets in general, would facilitate support operations for such markets. If

some domestic consumption were excluded from the primary market, the amount of the commodity covered by certificates issued to growers would be correspondingly smaller.

Desirably, such a limitation should be adjustable with changing conditions and, if needed, on the basis of international arrangements designed to maintain fair competition in international trade.

For wheat, such a limitation might be confined to the export market. For cotton, it might apply to all sales in secondary markets without differentiation.

(*d*) *Trading in the commodity.*—Trading in the commodity itself would be free and without Government interference. Processors, exporters, and secondary domestic users could choose the qualities they wanted.

(*e*) *Trading in "domestic marketing certificates."*—If the marketing certificates had no value tag and were freely transferable, a market would develop in which processors would buy the amount of certificates needed to cover their processing for domestic use. The price of the certificates would tend to be the difference between the "fair" price and the free-market price of the commodity.

(*f*) *Role of the Government.*—Under this system, the role of the Government would be confined to issuing the certificates, allotting them to the producers, exchanging larger against smaller denominations of the certificates, and controlling acquisition of the required amount of certificates by the processors.

(*g*) *No risk of errors, no rigidities.*—Since there would be no tax levied, and no payments would be made, no advance estimate of price trends would be needed. Thus there would be no risk of errors in such estimates nor any of the rigidities encountered if tax and payment rates are fixed and adjusted annually.

C. Principal Problems of a Multiple Price System

Some of the problems encountered by a multiple price system are analyzed in more detail in the following:

I. THE PRIMARY DOMESTIC MARKET

1. Level of price support in this market

As noted earlier, the principal objective of the certificate plans with regard to the primary market is the maintenance there of a fair price.

Practically all proposals determine the fair price as a percentage of parity (usually 90 or 100 percent).

Raising the support level from 90 to 100 percent of parity might meet with adverse consumer reaction if such action were taken in a surplus situation and in conjunction with a lowering of the export price. If the price in the primary domestic market were maintained at the present 90 percent level, less consumer objection to a multiple price system would probably be encountered.

Raising the support price to 100 percent of parity would give producers some compensation for the income losses that would result under a multiple price system from the lower priced sales in the secondary markets.

For wheat, the domestic food demand would remain about the same whether the price of wheat were allowed to drop, say, to 75 percent of parity or raised to 100 percent.

Cotton, however, is exposed to price competition from other products, especially rayon. The degree of this competition varies considerably among the various uses of cotton. At least insofar as industrial uses are concerned, some actual or potential demand would probably be lost, in the long run, if the price were raised to 100 percent of parity.

Moreover, there is no definite borderline between primary and secondary uses of cotton, as there is between food use and feed use of wheat. If the support price for cotton in the primary market were raised to 100 percent of parity, need might arise to allocate to the secondary market certain industrial uses which, at a 90 percent level, could be maintained in the primary market without substantial losses of demand.

2. Fairness to consumers

As long as a commodity was in surplus supply and the multiple price system kept prices in the primary market above those in secondary markets, fairness would, from a consumer viewpoint, require that the certificate plans operate so as not to raise the price in the primary market above the fair level.

3. No ceiling

Although the certificate plans should avoid raising the price in the primary market above a certain level in a surplus situation, nothing in plans under discussion here would prevent the prices, both in the primary and the secondary markets, from rising above that level in response to changes in the overall supply and demand situation.

4. Commodity Credit Corporation operations

One of the fluctuating-value plans would support the price in the primary market by means of CCC loans at 90 percent of parity. Effectiveness of such support would, of course, depend on the ability to obtain storage facilities, as under the present system. This should be a lesser problem, however, for the limited quantities allotted for the primary domestic market under a multiple price system. Moreover, to the extent to which the multiple price system succeeded in moving surpluses, the storage problem would be eased.

Under the fixed-value plan, one loan level (at about 60 percent of parity) would be in effect for all markets. Here, too, the effectiveness of the floor would depend on obtaining storage. No floor would be provided, and no problems of maintaining the floor would arise under the blended-price plan.

5. Supply regulation for the primary market

Consumption estimates could be fairly accurate in the case of wheat, but problems of over- or under-estimates of consumption would aries in the case of cotton. In this connection, it may be noted that consumption estimates for sugar thus far have had to be corrected several times within each marketing year.

Under the fixed-value and blended-price plans, market supplies would not be affected by over- or under-estimates of consumption. Adjustments in the producer benefits could be made in the following year.

6. Provision for a safety margin under the fluctuating-value plan

Under this plan, supplies in the primary market would be limited to the amount for which certificates were issued. The risk of an artificial scarcity as a result of an underestimate could, for all practical purposes, be eliminated by adding a safety margin to the consumption estimate. This could be done without impairing the effectiveness of the system because any excess certificates and the corresponding amount of physical stocks would accrue to CCC. By means of the CCC operations, the fluctuating-value plan could effectively prevent excessive price rises above as well as price drops below the support level in the primary market.

Initially, some of the CCC stocks acquired prior to the start of the multiple price system could be used as a basis for issuing safety-margin certificates.

7. Risks of systems involving fixed certificate values

Systems such as the fixed-value and blended-price plans would annually, in advance, fix the value of the certificates for an entire marketing year.

In doing this they would encounter the risk of errors in estimates and of substantial deviations of the price (after tax payment) in the primary market. These implications have already been discussed above.

No problems of this kind would be encountered under the fluctuating-value plan.

II. THE EXPORT MARKET

1. Scope and setting of the problem

The two price proposals of the 1920's sprang from the belief that the world market was so large that any excess of United States production over domestic demand would have no difficulty in finding foreign markets if it were sold there at competitive prices.

Since then, experience has demonstrated that there are limits to the possibility of expanding exports. These limits result from such factors as rigidities in foreign demand, limitations on imports imposed by deficit countries, and efforts of other exporting countries to maintain their foreign markets, even at substantially reduced prices.

At present, importance must also be attached to the need to maintain friendly relations and close economic cooperation among the nations of the free world.

2. Attitude of multiple price plans toward the export market

From the viewpoint of their attitude toward the export market, the various multiple price plans can be classified into two groups:

(1) Plans that would force any excess over domestic consumption into the export market at any price, and

(2) Plans that would provide a floor (say 60 percent of parity) under the price in the export market and the secondary domestic market, possibly combined with quantitative limitations on sales therein.

3. The problem of gains in secondary markets

Selling at lower prices for exports (and for secondary uses at home) will benefit producers only up to a certain point; beyond such point, it will, however, result in a reduction, first, of net returns and, ultimately, of gross returns.

To illustrate this, suppose that the demand for a commodity in the export market would allow the market to expand as follows:

Quantity exported (million units)	Price (cents per unit)	Gross value of exports (million dollars)	Quantity exported (million units)	Price (cents per unit)	Gross value of exports (million dollars)
250	100	250	490	70	343
300	94	282	550	60	330
375	88	330	600	45	270
450	78	351	650	30	195
460	76	350			

In this example, the gross return would be maximized by permitting the price to drop from 100 to 78 cents. If it were allowed to drop lower, any further expansion in the quantity of exports would be achieved only at the cost of a lower gross return.

Even at an earlier point, net returns may be reduced, however. If, for example, alternative uses of the resources should yield the marginal producer 80 cents, a price cut to 78 cents would not be beneficial to him, even though it would increase gross returns.

For cotton, prospects exist for gradually regaining much of the recently lost export market by means of lower export prices. This expectation rests largely upon the experience that production in other exporting countries has shown a tendency to contract in response to declining prices. Further shifts abroad out of cotton in response to lower prices may be facilitated by possibilities of increase land use for food, for which internal demand is growing in some cotton exporting countries.

For wheat the prospect is less good. Import demand is inelastic as a result of programs in most deficit countries that are designed to maintain a certain level of grain production there irrespective of the price in international trade. Production in the other principal exporting countries (Canada, Australia, and Argentina) has, in the past, not shown any substantial response to declining United States prices.

4. International implications of "competitive" pricing of United States export products

The international implications of "competitive" pricing of United States wheat and cotton for export under the certificate plans can be grouped into five categories: (*a*) Problems of fairness; (*b*) risks of countermeasures by importing countries; (*c*) risks of countermeasures by exporting countries; (*d*) special United States problems regarding wheat; (*e*) problems of avoiding a price war.

(*a*) *Problems of fairness.*—

(i) Selling at "the world market price": It is frequently suggested that there would be no need to weigh the impact of a multiple-price system on international trade, as long as we do not sell for export at less than "the world market price."

This is an oversimplification.

The "world market price," just as any domestic market price, is the result of a given supply and demand situation; and, in the case of wheat and cotton, the United States is so important a supplier that any change in the volume of United States exports or the conditions of sale has a very definite bearing on prices in international trade.

(ii) The "umbrella" effect of present United States price supports: From an international viewpoint, it is, however, important to bear in mind that, as a result of the "umbrella" effect of these supports, undue benefits have accrued to producers in other exporting countries. Under our "umbrella," other exporting countries have been able to maintain and expand their exports simply by shading our supported prices.

It is also important to note that the "umbrella" effect of our price supports has forced importing countries to pay, not only for United States wheat and cotton but also for wheat and cotton from other areas, prices which those countries consider onerous in view of the present world market situation. Resentment has been particularly great in countries with a tight balance-of-payments situation. This resentment was evident during the recent Wheat Agreement negotiations.

(iii) Significance of the differential between "fair" domestic and "lower" export prices: It is probable that the allotment certificate plans (the "fixed-value" and "fluctuating-value" plans referred to previously) for wheat and cotton would not result in larger United States exports or lower United States export prices than would prevail in the absence of any Government programs for wheat and cotton, or any other crop competing for the same acreage.

The reasons for this are as follows:

(*a*) The "fair" price in the primary domestic market would essentially be a premium price compared with the prospective level of market prices, if there were free competition and no Government programs.

(*b*) Allotment certificate plans would create some incentive to a downward adjustment of production.

(i) In the case of wheat, the resulting crops are unlikely to be larger than they would be in the absence of any price support.

(ii) In the case of cotton, the production shifts would depend on the relative prices for competing crops.

If price supports continued for such crops, shifts away from wheat and cotton would probably be at least as large under the allotment certificate plans as with price support across the board.

(*c*) United States consumption is unlikely to be reduced by a multiple-price system. There would be no decline in primary consumption of wheat and such decline as might occur in cotton might be offset by increased sales in the secondary domestic market.

b. The risk of countermeasures of importing countries.—Many importing countries have laws providing for countervailing or antidumping duties. They, as well as we, can apply such duties under international trade agreements and treaties.

The experience has, however, been that countries often abstain from the levying of such duties. Sometimes, they even welcome the lower import prices. Also, countervailing or antidumping duties against the United States alone would not be effective, as long as other exporting countries sell at prices competitive with United States export prices. Moreover, most importing countries already have other and more effective means of protecting their producers (such as state-trading monopolies and direct trade controls) in operation. How much retaliation there would be cannot be foreseen. The establishment of a free grain market in the United Kingdom

might cause that country to protect its grain producers in some form. Action on the part of the United Kingdom would primarily affect Canada, which has a multiple-price system already in operation and is the principal supplier of the United Kingdom.

In the case of cotton, importing countries that are exporters of cotton textiles might be deterred from levying countervailing duties by the fact that the resulting increase in the costs of cotton to their manufacturers might adversely affect the latters' position in international trade.

c. Countermeasures of other exporting countries.—As regards other exporting countries, multiple-price systems of the United States are likely to meet with unfriendly reactions, irrespective of their justification. Some of the wheat and cotton exporting countries already have multiple-price systems in effect, e. g., Canada for wheat and Brazil for cotton. They are likely to use these systems more aggressively if the United States should adopt a multiple-price system.

Other exporting countries might use currency manipulations, such as multiple exchange rates, to improve the competitive position of their products. Still others might change their tax system for the same purpose.

Insofar as cotton is concerned, the possibility of production shifts to food, as well as financial considerations of the various countries, might operate to limit the scope and intensity of such countermeasures and, thus, the risk of a price war.

In the case of wheat, however, there appears to be a real risk of a price war. This is so not only because of the inelasticity of export supplies and import demand but also because all principal wheat-exporting countries except the United States employ monopoly export systems that enable them to manage their export prices.

When in 1952–53 the world market picture changed, these countries, through such price management, maintained or even expanded their exports of wheat despite the shrinkage in world import demand. Even Canada, a dollar country, expanded her exports of nonagreement wheat in that year to about 1½ times as much as in the preceding year.

(*d*) *Special United States problems regarding wheat.*—The United States, on the other hand, saw her nonagreement exports decline from about 225 to about 65 million bushels.

Despite shrinkage of her nonagreement market, the United States has, however, retained a total export market of about 315 million bushels for wheat in 1952–53, and she may be able to export about 260 million bushels in 1953–54 (based on the outlook as seen in July 1, 1953.)

For exports under the International Wheat Agreement (about 250 million bushels [2] in the last marketing year) the United States has in the past been able to realize the maximum agreement price ($1.80 under the old agreement) and the domestic price on nonagreement wheat.

The United States' willingness to limit export subsidization to agreement wheat and to limit it for such wheat in general to the difference between the agreement price and the domestic United States price, has been the most important price-maintaining factor in the world market in the present surplus situation.

[2] Because of the United Kingdom's not joining the new agreement our share in this agreement (not yet determined as of July 1953) will be substantially below 250 million bushels.

Any unilateral change in United States policies regarding wheat export prices might result in a sharp decline of wheat prices in international trade.

(e) *Preventing a price war.*—The foregoing considerations are not intended to minimize the need for a change in our wheat policy so as to be able to deal with the shading of United States prices by other exporters. It is, however, concluded that it would be in the interest of wheat growers in the United States, as well as that of wheat growers in other exporting countries, to prevent a price war. Importing countries should share in this interest because of their own producers of the same or competing products, and because of adverse secondary effects of a price war in wheat on the market for manufactures.

A change in United States export policies regarding wheat, and regarding cotton as well, should therefore be accompanied by a declaration of our willingness to participate in an international arrangement that would keep competition in wheat and cotton trade within fair limits.

Such willingness should be made known to other interested countries before the new export policy became operative. If the United States were to maintain fair prices in the primary domestic markets and to sell at competitive prices in the export markets, a full statement of the reasons for such a system of price support should be made to all interested countries and they should be invited to consult with us.

On the other hand, it may be noted that the United States would be in a much better bargaining position if she negotiated on the basis of a multiple-price system with a competitive export price than she is at present,[3] when she cannot effectively compete pricewise in the international markets for wheat and cotton and as a result, has seen her shares in these markets sharply reduced.

III. THE SECONDARY DOMESTIC MARKET

1. Competitive problems

The problems of a secondary domestic market differ greatly for wheat and cotton.

Wheat could find a relatively large secondary market in the United States if it were sold for feed at competitive prices. It then would, however, compete with other crops.

Growers of cash corn and other feed grains might resent this, especially if they also should have marketing difficulties. However, as long as feed grains other than corn were not subject to acreage control, the alternative to competitive selling of wheat for feed would be acreage controls for wheat, with the result that much of the acreage forced out of wheat would go into feed grains. These shifts would also add to competition for present feed grain growers. (See the study on Alternative Ways of Dealing With Diverted Acres.)

The competitive position of feed wheat in relation to other feeds varies greatly by regions. For example, the Pacific Northwest is an area where feeding of wheat might be expanded without seriously affecting the market for other feeds. There, feed wheat could be sold at a higher price than in the corn-producing areas.

In general, it may be concluded that provisions for wheat sales for feed under a multiple-price system would be less objectionable from the viewpoint of other grain producers, if the floor under the feed

[3] July 1953.

wheat price were set equal to or somewhat higher than the support prices for feed grains. This point needs more thorough study than has yet been possible.

Cotton could only find a limited secondary domestic market. There, it would compete with industrial products which have been cutting into old, established cotton markets. The lower price would hold more of current industrial uses than would be held otherwise, but would probably not regain substantial portions of markets already lost.

2. Control problems

Separation of a primary and a secondary market in the United States for wheat or cotton might create control problems so as to prevent supplies from the latter from flowing into the former.

It would appear that these problems would be easier to solve if the system relied on the acquisition of certificates by the processors for domestic use and the filing of these certificates with the Government. Then, actual trade in the commodity could flow freely, would be effectuated at one price, and would not need to be controlled.

IV. IMPORTS AND A MULTIPLE-PRICE SYSTEM

1. Imports for primary uses

By maintaining prices for the primary domestic uses higher than in international trade, a multiple-price system tends to stimulate imports, over and above the amount that would find a market there in the absence of price support.

If freely admitted, such imports could impair the effectiveness of a multiple-price system, just as they have tended to impair the effectiveness of uniform price supports at levels higher than in international trade. Insofar as raw cotton, wheat for human consumption, and flour are concerned, the import quotas imposed under section 22 will prevent such an effect.

Irrespective of such quotas, it would appear appropriate to subject imports of wheat and cotton, both in raw and in processed form, to the same requirements as the domestic products.

For products imported in raw form, this would mean that they could be processed for domestic use only upon acquisition by the processor of an equivalent quantity of certificates, which in turn would involve either payment of the processing tax or, under the "fluctuating-value" plans, buying certificates and paying for them an amount about equal to the differential between the fair price and the free-market price.

For products imported in processed form, certificates would have to be acquired at the time of entry into the United States customs territory.

2. Imports for secondary uses

The certificate plans would not stimulate imports for secondary uses as do the present programs. Imports of feed wheat might, in fact, be discouraged by selling United States wheat for feed at competitive prices.

The incentive to import wheat as "unfit for human consumption" and subsequently diverting it to milling (an incentive which exists under our present price-support and export-subsidy systems) would be eliminated under a multiple-price system.

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V. PRODUCER BENEFITS, PRODUCTION ADJUSTMENTS, AND PRODUCTION CONTROL

1. Benefit distribution and adjustment effects

Two methods have been suggested for the distribution of the benefits of a multiple-price system among producers; namely, (i) distribution by means of allotted shares in the primary market, and (ii) distribution of average returns from all sales (those in the primary and those in the secondary markets); i. e., a blended price.

(*a*) *Allotment of shares in the primary market.*—Most multiple-price systems would allot to each producer a share in the primary domestic market on a historical production basis. This share would be expressed in units of his product (e. g., bushels of wheat or pounds of cotton) rather than in a number of acres.

Up to his allotted share, each producer would benefit from the fair price. For any quantity, small or large, that he produced beyond such share, he would receive only the competitive price.

The average return of the individual producer (if he chose to think in this fashion) would vary, depending on how much more than his allotted share he produced. If, for example, the fair price were maintained at 90 percent of parity, but the price in the secondary markets dropped to 60 percent of parity, a producer not exceeding his allotted share would receive 90 percent of parity. Another producer, who produced one and a half times his allotted share, would, on an average, receive 80 percent. A third producer who produced twice his allotted share would receive 75 percent. But in each case he would receive 90 percent of parity on his allotment and a lower price on the excess.

(*b*) *Blending prices in the primary and the secondary markets.*—The blended price plan would use the second method mentioned above. It would secure blended per unit returns to all producers, irrespective of the relationship of their current production to production in previous years. In addition to the competitive price, which they would obtain in the market, they would receive a supplementary payment per bushel. If, for example, the parity differential applicable for domestic food use amounted to 80 cents per bushel of wheat and yielded $400 million (on the basis of a food consumption of wheat of 500 million bushels) and the total crop amounted to 1,200 million bushels, each farmer would receive 33 cents per bushel on all of his wheat. Assuming a free-market price of $1.62, the total return per unit, or blended price, would be $1.95. This would be a "one price system" to the individual producer.

(*c*) *Advantages and disadvantages of these two methods.*—Giving each producer the same blended price, irrespective of the size of his crop, would avoid freezing of production patterns. Yet, a blended price system would probably provide less of an incentive to downward adjustments of total production than the domestic allotment method, under which the producer would receive only the low price of a secondary market (or, say, a loan of 60 percent of parity) for whatever he produced in excess of his allotment.

Adjustment would tend to be greater in areas where there are ample opportunities for alternative land use than in areas more or less depending on one crop or confronted with a surplus situation also with respect to other crops.

Adjustment opportunities will, furthermore, be greater in a period of high levels of economic activity in the United States and of international trade than in a period of recession.

On the whole, adjustment prospects appear to be better for cotton than for wheat.

(*d*) *Capitalization of benefits.*—The allotment system would have the disadvantage that the benefits from the higher price for the allotment would tend to be capitalized in the sale of the farm.

2. Production control

A multiple-price system should reduce the need for production control in two ways:

(a) By the incentive to downward production adjustments that it would provide, and

(b) By the widening of secondary markets that would be achieved.

As concerns wheat, production controls could probably be avoided only if any excess of the domestic crop over domestic food requirements, seed use, and exports could be moved into feed. This would presuppose feed wheat prices above the applicable support level a good deal of the time.

For cotton, the short-run prospect will largely depend on the overall level of economic activity in the United States and abroad. As long as this level is high, and especially if further progress is made in the development of underdeveloped countries, a multiple-price system could probably be operated without production controls, even if it set a 60-percent floor under export prices. In a prolonged general recession, production controls might become necessary, however, even under a multiple-price system. The long-run prospect will depend on what changes in production techniques and costs may occur.

Transitory production controls may be needed if a multiple-price system should be put into operation at a time when large surplus stocks have been accumulated.

3. Equitableness of a multiple-price system

The importance of the domestic and the foreign markets, both for wheat and cotton producers, varies greatly from region to region.

Naturally, the producers who, because of location or variety, sell most or all of their production at home have a less direct interest in the maintenance of export markets. Some of them, therefore, may resent a multiple-price system that would make them share in the burden of maintaining large export markets. Such resentment is likely to be encountered, irrespective of the type of certificate plan used.

In considering this problem, it must be borne in mind that those who, in the past, have exported their wheat or cotton have helped to maintain the domestic market for the producers who sold at home, and that those who, in the past, exported can and will sell at home if they lose their foreign markets or find them less profitable than the domestic market.

Diversion of excess production to exports or other secondary outlets is, therefore, a common interest of all producers. It is recognized as such in the present support program by providing for nationwide cuts in acreage or marketing quotas—even though, in the case of wheat and cotton, the surplus accumulations have been due primarily to a sudden shrinkage of the export market.

Certain equity considerations, which apply to acreage cuts under the present program, could find a place also in a domestic allotment

plan. A blended price system would not allow for such equity considerations.

VI. COMPARISON WITH OTHER PRICE-SUPPORT PROGRAMS

1. Uniform high-level supports make necessary substantial production restrictions, if surpluses accumulate. With the disappearance of emergency demands abroad and the rebuilding and expansion of foreign production, the prospect is for a recurrent need for such restrictions, unless there should be widespread crop failures or an unexpected upsurge of demand, e. g., because of a new international crisis.

As pointed out above, a multiple-price system could eliminate or greatly reduce the need for compulsory production restrictions for wheat and, should economic activity remain high, probably also for cotton; and it would operate to increase sales in the export market and a secondary domestic market. Such sales increase would, however, be at the cost of lower prices in these markets.

If a shift to a multiple-price system were accompanied by a raising of the support level in the primary market to 100 percent of parity without substantial losses in sales volume there, this would, of course, increase the benefits from such a system. The prospect for this is, as noted above, better for wheat than for cotton.

The most important difference is that the burden of a certificate plan on the Federal Treasury would be substantially smaller than that of the present support program.

2. Flexible-price supports would give producers lower returns in the primary domestic market than would maintenance of a high price in this market by means of a multiple-price system. In the case of wheat, such price maintenance could, as pointed out above, be achieved without any loss of sales in this market. For cotton, however, the prospect is that, in the long run, maintenance of a high price would be accompanied by a loss of sales (especially for industrial use) which might be avoided under flexible price supports.

In secondary markets, sales could be more aggressively expanded under a multiple-price system than under flexible supports, but probably only at the cost of lowering prices in these markets below the minimum floor of a flexible-support system.

The risk of a price war (as a result of a change by the United States to a multiple-price system) would be avoided by flexible supports. On the other hand, shading the United States price by other exporting countries would be easier in the case of flexible supports than in that of a multiple-price system.

A combination of flexible supports for commodities that rely primarily on the domestic market (such as feed grains) with multiple-price systems for prominent export crops (such as wheat and cotton) might be most effective in securing production adjustments.

3. Export subsidies, financed out of tariff or general Treasury revenues could, of course, give producers higher per unit returns than the certificate plans. Limited export-subsidy programs are currently in operation.[4] It is unlikely, however, that really, large-scale sub-

[4] These programs include:
(1) Export and diversion payments under sec. 32, which are made from tariff revenues;
(2) Disposal, below costs, of CCC stocks in foreign markets, or for special uses at home; and
(3) Export subsidy payments in fulfillment of the International Wheat Agreement.
The first of these three programs is financed from tariff revenues; the latter two are financed from general Treasury revenues.

sidization would be acceptable to the American people, except possibly as a short-term emergency measure in a serious depression. Moreover, they would make farm income dependent on appropriations.

Export subsidies financed by a tax on farm sales, or some similar internal tax, would essentially be another form of a self-supporting multiple-price system.

Any export subsidy system, irrespective of the way in which it is financed, would create more difficulties internationally than a system that allocated shares in the primary market and gave the individual producer only the export price for whatever quantity he produced for export.

2. PROBLEMS OF A MULTIPLE-PRICE PLAN FOR RICE

I. SUMMARY AND CONCLUSIONS

1. As distinct from wheat and cotton, world demand for rice has remained strong. The United States still (September 1953) has export allocations in effect that were imposed in September 1952 to meet the acute scarcity situation that developed under the impact of the Korean war.

2. There are indications of an easing of the world rice situation. World exportable supplies, however, still amount to only about 55 percent of their prewar volume. Import needs, on the other hand, have remained large, despite some shift to wheat. Yet, at prevailing prices, lack of internal buying power and lack of foreign exchange in many countries prevent a considerable part of this need from becoming effective demand. Import demand is likely to increase if rice should be offered at lower prices in the world market.

3. The market for United States rice consists of:

(*a*) The domestic market, where demand has not shown any significant response to price;

(*b*) The Cuban market, where United States rice enjoys a preferential position, accounting for more than 95 percent of that country's rice imports, and where governmental policy aims to maintain rice prices high enough to maintain and expand indigenous rice production; and

(*c*) The nonpreferential world market, of which the United States supplied less than 1 percent before the war but as much as 12 percent in 1952, and where, once supply conditions have improved, the United States could maintain large exports only at competitive prices.

4. There appears to be no immediate need for a change in the United States support program for rice. It seems desirable, however, that the United States stand ready to offer rice at competitive prices in the nonpreferential world market, once prices there should substantially weaken.

5. A multiple-price system would appear to be the most effective method of marketing rice on a self-supporting basis. To be effective without burdensome transitional measures, such a system would have to be put into operation before excessive stocks have accumulated in CCC hands.

6. A multiple-price system for rice should treat both the domestic and the Cuban market as part of the primary market, but should not maintain prices there above 90 percent of parity. And it should

enable the sale, at competitive prices in the nonpreferential world market, of any rice United States producers want to produce at such prices.

7. Adverse foreign repercussions to a multiple-price system for rice might be encountered, especially in a critical area of Asia. If the United States should adopt such a system, it should stand ready to consult with interested countries regarding maintenance of fair competition in the world rice market.

II. THE RICE SITUATION

1. Expansion of United States rice production

Production of rice in the United States has increased from less than 11 million hundredweight of rough rice prior to World War I to 50.6 million hundredweight of rough rice in 1953. It increased during World War I, and rose to about 23 million hundredweight in 1920. In succeeding years, it declined to less than 15 million hundredweight; then it fluctuated between these two levels until 1936, when an upward trend began. With the exception of 1950, when acreage allotments were in effect, it has increased each year since.

In 1953 both the acreage seeded to rice in the United States (2.2 million acres) and the production (50.6 million hundredweight) reached alltime records. The increase in United States production is not very significant in relation to world production, since the United States still produces only 1.4 percent of the world total.

During its period of expansion, United States rice production has demonstrated considerable response to price increases. Experience seems also to suggest that production would tend to contract if prices should decline. The extent of such contraction will, of course, depend on the extent of the price decline and the opportunities for alternative land use that would exist at such a time.

2. Domestic consumption

Domestic consumption of rice has increased substantially from about 16 million hundredweight of rough rice, prior to World War I, to about 25 million hundredweight during the past year. However, this increase is accounted for largely by a rise in population rather than an increase in per capita consumption.

3. United States rice exports

Between World War I and the marketing year 1937–38, United States rice exports fluctuated considerably, and Europe was our principal market. Then Cuba gave United States rice a strong preferential position in her rice market and became our most important and most dependable market.

Total United States exports of rice have increased from less than 1 million hundredweight prior to World War I to approximately 25 million hundredweight at present, with the largest increases occurring in the years following World War II. In 1952, these exports (including exports to Cuba) accounted for 16 percent of world exports, compared with about 1 percent in 1936–40. This is the result of a fivefold increase in United States exports and a sharp drop in world rice exports, which, in the calendar year 1952, amounted to only about 55 percent of the pre-World War II volume.

In recent years, Cuba has taken an average of about one-third of our total rice exports, but may now be expected to take slightly less than one-third of our exportable supplies, based on current levels of production, with the major portion of the balance being disposed of to the rice-deficit countries in the Far East. During and following World War II, while exports from the Far East rice bowl countries were drastically reduced, the United States shipped large quantities of rice to the Far East, with Japan finally emerging as our largest customer in that area. Assuming that a serious worsening of its dollar position is avoided, Japan seems to offer the best prospects in the near future for a continuing outlet for United States rice in the Far East.

4. Importance of the domestic, the Cuban, and the non-Cuban export market for United States rice

Tables 1 and 2 give data on United States supplies and the importance of the three principal outlets for United States rice: the domestic and Cuban markets and the remainder of the world market, for the prewar and the postwar periods and a projection for 1953–54.

The supply for 1953–54 is fairly well determined at this time. Items of domestic disappearance can also be fairly well estimated. However, exports are indefinite at this time. If, as assumed in table 1, they should amount to 17.3 million hundredweight, milled rice equivalent, stocks on August 1, 1954, would be about 2 million hundredweight of rough rice, or slightly below the 5-year (1947–51) average.

(*a*) *The domestic market.*—Of the three principal segments of the market for United States rice, the domestic market, in the past, showed little definite or consistent response to price changes. Thus, it appears that lowering the sales price in this market under a flexible support program would not bring about a consumption expansion that would compensate producers for the income losses resulting from the price reduction.

(*b*) *The Cuban market.*—The Cuban import market is for relatively high quality rice, and its requirements generally are comparable to those of the United States domestic rice market.

The position of United States rice in the Cuban market has been enhanced by our close commercial relations with Cuba and by the preferential tariff treatment accorded United States rice by Cuba. Although quantities exported to Cuba have fluctuated to some extent from year to year, the general trend has been one of increasing exports. Cuba's imports of United States rice now exceed 7½ million hundredweight, rough rice equivalent, per year. They amount to 98 or 99 percent of total rice imports by Cuba, as compared with a 10-year average of more than 90 percent.

Cuba is presently expanding her own production of rice, using the protection of the tariff preference granted United States rice and the United States rice price-support program, although it is not expected that increased Cuban production will result in any drastic or immediate reduction in Cuban rice import requirements.

It appears that the Cuban import market for rice will continue to function much like an extension of the domestic rice market for some time in the future and that a lowering of the price for United States rice would not result in any greater exports to Cuba. It might, rather, cause Cuba to raise the level of protection against United States rice and to curtail the margin of preference in our favor.

(c) *The non-Cuban export market.*—Our exports to areas other than Cuba, particularly the Far East, have, in recent years, been encouraged and assisted to some extent by our foreign-aid programs. At present, domestic price-support levels for rice are competitive with world rice prices, and the United States rice trade is in a position to compete for export markets without the aid of special export programs or subsidies.

If future world rice supplies become more ample, the United States industry will have to sell its rice at competitive world prices, which may be lower than our support price under the present rice program. In such competition, it may receive less assistance from foreign-aid programs. Under these circumstances, the United States could lose much of its non-Cuban export market.

Under flexible price supports, reduction of the United States price would help maintain our non-Cuban export market temporarily, but only until the pressure of supplies caused prices in the world rice market to drop below the minimum United States support level.

III. PROBLEMS OF A MULTIPLE-PRICE SYSTEM FOR RICE

1. Differences in the market structure between rice, wheat, and cotton

An earlier study analyzed the economic problems of multiple-price systems with particular reference to wheat and cotton. Much of what has been said there is applicable to rice.

It appears, however, that the rice situation differs from the wheat and cotton situations in two important respects:

(1) The entire domestic market for rice would, under a multiple-price system, have to be considered as a primary market; whereas, in the case of wheat and cotton, part of the domestic market (e. g., the feed-wheat market) might be considered as a secondary market.

(2) In the case of rice, the preferential market in Cuba (which is almost entirely supplied by the United States) should be treated as a primary market and only the remainder of the world market for rice (where the United States is a minor supplier) as a secondary market.

2. Cuba as a primary market for United States rice under a multiple-price system

The preferential tariff status of United States rice there has rested, in part, on reciprocity and, in part, on the interest of the Cuban rice growers in keeping "cheap" rice out of Cuba.

From the reciprocity point of view, Cuba would probably be willing to accept the maintenance of our export price of rice to Cuba at 90 percent of parity, even if some "surplus" United States rice were sold elsewhere for less. A differential between the export prices of United States rice to Cuba and to other countries would parallel the price differential now enjoyed by Cuban sugar in the United States; and it would cost Cuba much less than she gains from the sugar price differential in the United States.

Cuban growers consider our rice-support program an indirect protection for them. If they were deprived of this protection by United States sales in Cuba at prices competitive with those to which oriental rice might drop in a surplus situation, Cuban producers would undoubtedly press for greater protection.

3. Our "secondary" rice export market

In the remainder of the world market, the United States has, traditionally, been a minor supplier. In the event of a significant decline in world rice prices, exports of United States rice to the Far East would largely depend on whether our rice could be sold there at competitive prices. The world requirement for rice greatly exceeds available supplies; but a shortage of funds and the lack of dollar exchange in many countries limits the effective demand for United States rice.

Under these circumstances, it seems probable that, in the future, substantially larger quantities of United States rice could be exported under a two-price system at competitive prices than under our present fixed price support program. There is a great need for rice in Asiatic countries, where the purchasing power of consumers is low. World rice imports might, therefore, increase, if rice prices in international trade should decline. Under a multiple-price system, if rice were offered in the non-Cuban export market at competitive prices, United States producers could sell about as much there as they might find profitable to produce at competitive prices.

4. Control problems

Splitting the export market into a primary market (Cuba) and a secondary market (comprising all other rice-importing countries) would create control problems entirely different from those of wheat and cotton, where the entire export market would probably be treated as a secondary market.

The exportation of rice from the United States could, as such, be controlled by means of two kinds of export certificates; one for Cuba, and one for other areas. In the case of the latter, assurances against reexportation to Cuba might be required.

This system would, however, be effective only if rice exported by the United States to third countries at "competitive" prices were treated by Cuba as "non-United States rice"—just as the United States treats any Cuban sugar imports into the United States from third countries as non-Cuban sugar.

5. Price objectives

(*a*) *Regarding the primary market.*—Some multiple-price plans propose to set the support level in the primary market at 100 percent while others contemplate 90 percent of parity.

Raising the support level in the primary market from 90 to 100 percent of parity, while lowering the sales price for the secondary market, would meet with consumer resistance in the case of any product.

In the case of rice, reaction in Cuba would be particularly important. Even if the present 90-percent support price for United States rice is accepted as "fair," adverse reaction in Cuba might result if the price were raised to 100 percent of parity. Thus, the risk would be increased that Cuba might, by some action, impair the present preferential position of United States rice in the Cuban market.

(*b*) *Regarding the secondary export market.*—If a world surplus situation should develop in rice, the United States would not be able to exercise a major influence on the price of rice in the world market (excluding Cuba).

Thus, setting a floor under the price in this market could, in a prolonged serious surplus situation, lead to large rice accumulations by CCC.

There would be no economic need for setting such a floor. Since the domestic and the Cuban markets account for from 67 to 79 percent of United States rice sales in the postwar period, price maintenance in these markets should give growers sufficient income protection. Moreover, if no floor were set below the price of rice in the secondary market, no need would arise for production restrictions.

If producers were given a blended price for whatever they produced, a price in the secondary market of, say, 60 percent of parity would, blended with a price of 90 percent of parity in the domestic and the Cuban markets, assure producers of a per unit return of about 82 percent of parity (assuming 25 percent of the crop sold at the secondary price).

If shares in the domestic and the Cuban markets were allotted, some producers may find it profitable to produce quantities in excess of their allotted shares at the world market price. Others would shift to alternative land uses, such as oats, barley, hay, and pasture.

TABLE 1.—*Rice, rough: Supply and disappearance, years beginning Aug. 1, averages 1937–39 and 1947–51 and annual 1951–53*

[In million hundredweights]

Year	Supply				Disappearance						
	Stocks Aug. 1	Production [1]	Imports [2]	Total supply	Food [3]	Industry [4]	Feed	Seed	Total domestic disappearance	Exports	Total disappearance
1937–39	3.7	24.0	1.0	28.7	15.5	3.2	0.4	1.1	20.2	4.7	24.9
1947–51	2.3	39.8	.2	42.3	16.4	4.6	.3	2.1	23.4	16.2	39.6
1951	4.5	45.9	.5	50.9	16.8	4.7	.3	2.2	24.0	24.1	48.1
1952	2.0	48.8	.3	51.1	18.0	4.5	.3	2.4	25.2	25.6	50.8
1953 (preliminary)	1.5	[6] 50.6	.3	52.4	18.5	4.8	.3	2.4	26.0	24.4	50.4

[1] Includes production in minor producing States not included in published BAE estimates.
[2] Mostly broken rice.
[3] Includes shipments to Territories and military food uses as well as continental United States food.
[4] Primarily for beer production.
[5] Total disappearance plus July 31 stocks do not exactly equal total supply because of drying loss, waste, and errors in data and conversion.
[6] September estimate.

TABLE 2.—*Rice, milled: Disappearance and disappearance percentages, years beginning Aug. 1, averages 1937–39 and 1947–51 and annual 1951–53*

Year	Domestic [1]		Exports to Cuba		Domestic and Cuba		Exports to others		Total exports		Total disappearance	
	Million hundredweight	Percent [2]	Million hundredweight	Percent [2]	Million hundredweight	Percent [2]	Million hundredweight	Percent [2]	Million hundredweight	Percent [2]	Million hundredweight	Percent
1937–39	13.89	81.2	2.25	13.2	16.14	94.4	0.96	5.6	3.21	18.8	17.10	100.0
1947–51	16.34	59.2	5.58	20.2	21.92	79.4	5.70	20.6	11.28	40.8	27.62	100.0
1951	17.24	50.0	4.96	14.3	22.20	64.3	12.31	35.7	17.27	50.0	34.51	100.0
1952	17.47	49.6	5.21	14.8	22.68	64.4	12.52	35.6	17.73	50.4	35.20	100.0
1953 preliminary	18.49	51.6	5.50	15.4	23.99	67.0	11.83	33.0	17.33	48.4	35.82	100.0

[1] Includes shipments to United States Territories.
[2] Percent of total disappearance.

6. Marketing certificates

The principal multiple-price plans currently under discussion involve the use of marketing certificates. Some proposals would attach a fixed value to these certificates: Others would use certificates without a value tag, and rely on CCC loans for maintaining the price of the certificated part of the crop at the "fair" price level.

The former method would fix the certificate value (per bag of rice) equal to the estmated difference between the fair price and the world market price. The economic effect would be the same as that of a processing tax Errors in the estimate and fluctuations in the world market price during the course of the year would cause the actual price in the primary market to deviate from the fair price.

7. Transitional problems

If multiple-price systems should be adopted for wheat and cotton, transitional problems would result from the large accumulated surplus stocks.

Similar problems would arise in the case of rice, if adoption of the system were delayed until surplus stocks had accumulated.

8. International repercussions

Adoption of a multiple-price system for rice by the United States would have international implications. Essentially, they would be the same as those encountered in the cases of wheat and cotton. (See the previous study.)

The conclusions drawn there as to the desirability of preventing a price war and expressing our willingness to consult with other interested countries would also apply in the case of a multiple-price system for rice.

B. Supplementary Studies

1. PLANS INVOLVING NEGOTIABLE CERTIFICATES WITH FLUCTUATING MARKET VALUE

A. Cotton [8]

I. PRINCIPAL FEATURES

The certificate plan most actively discussed for cotton would contain the following features:

A. Cotton processed for domestic consumption would be supported at a fixed percentage of the parity price (100 percent or some percentage between 90 and 100 percent of parity).

B. A national domestic allotment equal to estimated domestic consumption would be divided among producers on the basis of their historical production. Allotments would be expressed in pounds.

C. Negotiable marketing certificates covering the grower's allotment would be issued to the grower. These certificates would have no value tag attached, but would tend to sell in the market place at about the difference between the support and free-market prices for cotton.

D. Growers could obtain loans at the support price for cotton covered by certificates.

[8] This study was prepared in October-November 1953, and represents a more detailed analysis of one of the plans outlined in Multiple Price Plans for Wheat and Cotton.

E. The CCC, by means of loans, would absorb surpluses of cotton alloted for the domestic market and the domestic allotment would be set so as to prevent a scarcity.

F. Cotton produced in excess of the domestic allotment would sell at the free-market price for export, and possible designated secondary domestic uses. A low floor, possibly 60 percent of parity, would be set for nonallotment cotton.

G. Domestic mills would acquire certificates and would, periodically, deposit them with the Government for the quantity of cotton processed.

H. Exporters of cotton textiles would receive export payments or marketing certificates for the cotton equivalent of their exports. If they received certificates they would sell them in the market or to CCC. The issuing of certificates to textile exporters would require an adjustment in the size of the domestic allotment.

I. Importers of cotton textiles would have to buy marketing certificates in the market for the raw cotton equivalent of their imports.

J. Legal authority for production controls would be continued as an emergency backstop. Such controls might be necessary during a transition period unless surplus stocks were frozen or some way were found to dispose of them.

II. ALLOTMENT PROBLEMS

A. Timing

Estimates of consumption which would include domestically consumed cotton (domestic mill consumption minus cotton to be used in textile exports) and imported cotton textiles would have to be made some months before planting time. It is suggested that they be made in the October preceding the crop year which starts August 1.

B. Range of error in estimates

Domestic consumption estimates would be subject to a considerable margin of error because of unpredictable variations in economic conditions. The Commodity Credit Corporation would be authorized to issue certificates for cotton it holds and to sell such cotton plus certificates to supplement the domestic allotment, if needed, to prevent an artificial scarcity. If the CCC decreased its stocks so that there would be danger of artificial shortages, some safety margin would have to be added to the domestic consumption estimate in determining the domestic allotment for a specific year. The national domestic allotment for the following year would be adjusted in the light of experience in the preceding year. For example, if cotton consumption for a marketing year were underestimated, CCC sales from stocks would be necessary. For the next season, the national domestic allotment would be larger than estimated domestic consumption. On the other hand, if cotton consumption had been overestimated, at the end of the marketing year CCC would find itself with cotton plus certificates in excess of the safety margin.

C. Distribution of allotments

The allotment would be distributed to States, counties, and individual farms in proportion to their average production during some recent or specified base period. Once the allotment had been made, certificates would be issued to the farmers to cover each farmer's allotment. However, recent experience with the present marketing

quota law demonstrates the difficulty in obtaining agreement between various segments of the Cotton Belt on the method of distributing marketing quotas or allotments.

Some problems would be created by the lack of production data for individual farms. The quota would be distributed to farmers on the basis of average county yields. However, if adequate data were available, the county committees could make adjustments in farm quotas to obtain a more equitable distribution of allotments.

III. MARKETING CERTIFICATES

A. Issue and transfer of certificates

The certificates would be issued in pounds and would be negotiable after they left the farmer's hands. Each farmer would receive certificates for the number of pounds for which he has received a domestic allotment. The farmer would then sell his cotton and the certificates at the same time, but the certificates would not be attached to specific bales after the cotton left the farmer's hands. The certificates would be made out to each farmer by name. When the farmer sold his cotton he would endorse the certificate. The buyers of, and those who subsequently handle, the certificates would then be able to match the certificates with the pounds of cotton sold to the mills. Periodically, the mills would turn in certificates covering each pound of cotton consumed. If a mill consumed cotton for which it did not have a certificate, it would be required to pay an amount equal to the value of the certificate plus 10 cents a pound on each pound of such cotton.

Certificates would be negotiable so as to make it possible to detach certificates from specific bales and attach them to other bales. Thus the domestic mills and exporters could obtain the qualities of cotton which they desired or needed. Merchants trading in areas which export a large proportion of the crop would find themselves with a surplus of certificates. On the other hand, merchants trading in areas which shipped a large proportion of the crop to domestic mills would not have enough certificates. This situation would necessitate the trading of certificates among merchants in widely separated areas as well as among merchants in the same or adjacent geographic locations.

B. Value of certificates

The value of the certificates would tend to be equal to the difference between the support price and the free market price for cotton. As the free market price declined, the value of the certificates would tend to increase and vice versa. This is expected to occur because the price of the two together would be expected to equal the support price.

Holders of certificates who did not own cotton (or cotton futures) would, of course, be subject to the risk of changes in the value of certificates. Holders of cotton who did not have certificates could hedge in the futures market where it is assumed that prices would move with the free market price of cotton.

The value of certificates might be affected for any holder by changes in the general level of supports for one crop as compared to the succeeding crop. Under past CCC loan programs, minimum levels have been announced prior to planting time. If the levels announced, for example, in January 1955 for the crop year beginning August 1955

were higher than the levels for the 1954 crop, processors, who would be permitted to use certificates issued for the 1954 crop until November 30, 1955, might be expected to bid up the price of such certificates, and acquire somewhat larger inventories of both cotton and certificates. Other persons would also be likely to bid for certificates in the hope of sales to processors. Prices of cotton plus certificates might rise to a point at which CCC would make cotton and certificates available, if it had stocks available.

On the other hand, if the announced price-support levels were lower for the following crop there would be some tendency for more certificates and cotton to get into the hands of CCC. If the size of the change in support-price levels from one year to another were relatively small, the probable adjustment would not be serious, but persons who held only certificates and persons holding both cotton and equivalent certificates would have gains or losses.

C. Problems of extending price-support commitments beyond the farm level

The plan provides for assuring farmers of 100 percent of the support price (see CCC operation below). There is the question of whether it is desirable to insure merchants and mills against undue variations in the certificate values. One of the methods of doing this would be open market sale and purchase of cotton and certificates by the CCC.

The CCC would buy and sell cotton plus certificates within specified price ranges. It would buy cotton when it was 95 percent of the support level and sell cotton when it was 105 percent of the support level or higher. The point at which CCC would buy cotton would be determined by the price of Middling $1\frac{5}{16}$-inch cotton in the 10 spot markets. The point at which CCC would stop buying might be left to the discretion of the CCC.

This plan presents certain problems concerning the price differentials for quality. If the CCC differentials are not the same as those established by the market, the CCC would accumulate relatively large stocks of those qualities for which the support differentials caused a higher support price than the market prices. No matter what system of determining the support differentials is used, some qualities will likely be supported at a price out of line with the market price in any one year. Accumulations of unbalanced stocks with respect to quality occurred also under previous loan programs. The imbalance might be more exaggerated if CCC purchased cotton at all stages in the marketing process.

This might not be serious if the situation is corrected over time, say 2 years. The differentials might be adjusted so as to cause an adjustment of the quality distribution of CCC stocks in subsequent years, but deliberate and effective adjustment would be most difficult.

D. Suspension of certificate requirements at prices above support

It is suggested that a mill would not be required to cover processing of cotton by certificates if it could prove it paid 105 percent or more of the support price. The support price to mills could be defined as the support price at the 10 spot markets plus specified transportation, insurance, compression, warehousing, and other merchandising charges. Such charges would be specified in cents per pound by the CCC at the beginning of the season.

Such a provision would tend to place a ceiling on the price of the certificate as the difference between 105 percent of the support price and the free market price.

If certificates were held back at some time during a marketing year, the value of the certificates would subsequently be depressed. Thus the holders of certificates would suffer. Although this system could work a hardship on some merchants, it would discourage the hoarding of certificates.

As long as the CCC would provide loans to farmers, it seems unlikely that the value of domestic allotment cotton would be depressed much below the support price. As at the present, much cotton would probably be put into the loan and be withdrawn from it, during the same season.

E. Transfer of risks

1. *Assuming no support operations by CCC beyond the farm level.*—Cotton might be hedged by sales in the futures markets and certificates sold in a certificate market. Mills and other merchants would be potential buyers, but some speculators would undoubtedly be necessary. Possibly an organized market in certificates would develop, or, if desired, such a development could be encouraged. Provision would be needed for mailing time to permit delivery of certificates, such as the 3-day rule in the stock market. Such a market would provide knowledge of fluctuations in value of certificates and facilitate trading in certificates by nontrade interests.

Whether sufficient certificates would be available in a certificate market to give representative quotations is at least open to question. Some certificates would flow from farmers to CCC and ultimately be sold with cotton by CCC to processors. Other certificates would be handled by nationally integrated firms operating in local markets or be purchased directly at local markets by processors. In other instances local merchants would prefer to make fixed-price cash sales to other merchants who would prefer to hold the certificates until "package" sales of cotton and certificates were made.

A more intricate type of market would be a deferred or forward market for certificates. In such a market the dealing would be in contracts calling for the delivery of certificates in a subsequent month or months. Presumably, as in the case of futures contracts, few certificates would actually be delivered, but a hedge would be obtained against the risks of changes in value of certificates. Merchants could also sell contracts for deferred delivery in anticipation of purchases of certificates and mills could buy deferred contracts in anticipation of sales. Such deferred contracts could become an easy speculative medium. Quotations would be public and might tend to smooth price fluctuations. But the contracts could become much greater in quantity than available certificates, with consequent danger of price manipulation and corners, and result in violent public and farm reaction.

2. *Assuming Price Support at All Marketing Levels.*—It seems likely that in the initial stages certificates would move with cotton through usual marketing channels. For the local buyer especially, most, at least, of the risk of changes in the price of cotton and in the value of certificates could be transferred by sales to central-market merchants or by sales to the CCC of cotton plus certificates. It seems possible

that a system of quotations would develop for spot sales of cotton with accompanying certificates and for cotton without certificates. On cotton not covered by certificates the local merchant could make cash sales at spot prices or hedge in the futures market.

Central market merchants might also make spot or forward sales of cotton plus certificates to mills, and could make package sales to CCC. Cotton not covered by certificates could be hedged in the futures market. A substantial decrease in use of the futures markets might make them less valuable as price-registering and hedging mediums.

F. Time limitations

The certificates would be dated so as to allow farmers to sell the certificates between June 1 and May 30 of the following year. Cotton mills would have an additional 6 months in which to use the certificates. For example, a certificate would be valid for farmers from June 1, 1955, to May 30, 1956. Cotton mills would have until November 30, 1956, to utilize the certificates.

IV. EXPORTS AND IMPORTS OF COTTON TEXTILES

A. Exports

Since the end of World War II, the United States has exported relatively large quantities of manufactured cotton products. In 1951 these exports were equivalent to about 720,000 bales of raw cotton.

If the price of cotton consumed by domestic mills were supported at a higher price than the export price of cotton, exporters of manufactured cotton products would be placed in a disadvantageous position with respect to the price of these products. It would therefore be necessary to enable exporters of cotton products to reduce their prices in line with the cheaper cotton export price.

Manufacturers of cotton yarn and fabric do not know if their product will ultimately be exported or used in the domestic market. Therefore, it would not be possible to permit them to use noncertificated cotton.

There are two ways of protecting the competitive position of the textile exporter. Both would enable exporters to compete with foreign textiles manufactured from nondomestic allotment cotton without the need for tracing the actual cotton used in exported United States textiles from the cotton mill to shipside.

1. *Export payments.*—One way would be for the Government to make export payments on the amount of cotton used to manufacture the cotton products.

(*a*) The payment would be the difference between the average support price at the 10 spot markets for Middling fifteen-sixteenths-inch cotton and the free-market price at these markets.

(*b*) The total amount of the payments would vary with the quantity of cotton products exported. The total payments on the amount of cotton products exported might be computed as follows:

Support price at the 10 spot markets	cents per pound	[1] 32.99
Free market price at the 10 spot markets	do	[2] 28
Export subsidy per pound	cents	4.99
Export subsidy per bale of 500 pounds	dollars	24.95
Raw cotton equivalent of cotton products exported	bales	[3] 720,000
Total export subsidy payments	dollars	17,964,000

[1] Support price for 1953 crop.
[2] Assumed, not a forecast.
[3] Amount exported in 1951.

(*c*) The amount of cotton to be used in manufacturing the exported textiles would be estimated at the same time that domestic mill consumption was estimated. The estimated cotton equivalent of textile exports would be deducted from domestic mill consumption. Since the domestic allotment would not be large enough to cover cotton used in domestically-consumed and exported textiles, mills would have to buy cotton plus certificates in a quantity equivalent to exported textiles from the CCC. The CCC would sell the cotton plus certificates from its stocks or, if its stocks were depleted, it would buy cotton in the market to cover cotton used in exported textiles.

2. *Issuance of certificates to textile exporters.*—Textile exporters would be given certificates which they would sell in the market or to the CCC.

(*a*) The amount of cotton to be used in exported textiles would be estimated at the time that domestic consumption was estimated. The cotton equivalent of the textile exports would be deducted from the national domestic allotment.

(*b*) When the textiles were exported, the exporter would be given certificates by the Government for the amount of cotton used in manufacturing the textiles.

(*c*) The exporter would sell the certificates in the market or to the CCC. If he sold them in the market, they would be used by mills to cover additional cotton which was put into process.

Either method would have a time lag built into it. For example, under the second method the textile exporter would not receive his certificates until some time after the mill consumed the cotton. Therefore, the mills could not use certificates issued to exporters to cover the actual cotton used in manufacturing the exported textiles. However, since the CCC would have stocks covered by certificates which it would sell to mills, no shortage of cotton for domestic consumption would develop. Once the certificates issued to textile exporters began flowing into mills the time lag would take care of itself, except for adjustments caused by variations in the amount of textile exports.

Neither method would, in general, require direct payments out of Treasury revenues.

B. Imports

Imports of cotton textiles into the United States usually are small, equivalent to less than 25,000 bales of cotton in 1952. However, foreign mills could obtain cotton cheaper than domestic mills. Because of United States price-support policy, prices of imported textiles would be in a more favorable competitive position than at present. Under such circumstances, imports of cotton textiles might increase sharply.

In order to protect domestic cotton mills, it would be necessary for the textile importer to buy certificates to cover each pound of cotton used in manufacturing the imported textiles. These certificates could be bought on the open market or from the CCC. The importer would give the Government a certificate covering the cotton equivalent of the imported textiles or pay the penalties provided for domestic mill consumption of cotton not covered by certificates.

Since textile imports are equivalent to such a small amount of cotton, it would not be necessary to adjust the domestic allotment

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for these imports, assuming the national domestic allotment would include a safety margin.

V. IMPORTS OF RAW COTTON

Cotton imported into the United States would be bought at lower prices than domestic allotment cotton. In order to eliminate the price advantage of foreign cotton, it would be necessary to require that cotton importers acquire marketing certificates to cover the imported cotton. Mills would be required to cover the consumption of imported cotton in the same manner as the consumption of domestic allotment cotton.

VI. OPERATIONS OF THE COMMODITY CREDIT CORPORATION

A. Loans to farmers

The Commodity Credit Corporation would support the price of cotton produced under the domestic allotment by offering to make nonrecourse loans to farmers on the cotton at the support price. When a grower availed himself of the Commodity Credit Corporation loan, he would also turn over to the Commodity Credit Corporation properly endorsed certificates for each pound of cotton which he placed under loan.

The loan would work much like the loan under the current program. If the grower desired, he could withdraw the cotton and the certificates from the loan before the August 1 following the date on which the loan was made (the end of the marketing year). In order to withdraw the collateral he would have to pay the CCC all accrued interest, carrying charges, and storage charges on the loan and the cotton. At the end of the marketing year, the cotton would be pooled to producers' accounts and the CCC would assume control of the sale of the cotton.

B. Sales of stocks

Ordinarily the Commodity Credit Corporation would be empowered to sell the cotton at 105 percent of the current loan rate or the current loan rate plus interest, storage, and carrying charges, whichever were higher.

C. Purchase of cotton

The CCC would need the authority to purchase cotton in the market. This authority would insure CCC against shortages in operating the cotton textile export program and, if adopted, the market stabilization program.

D. CCC stocks

Any stocks of cotton that the Commodity Credit Corporation had on hand at the start of this program would be covered by marketing certificates so that they would act as a reserve in case the estimates were too small in any 1 year. Unredeemed loan cotton obtained in subsequent years would be added to these stocks. In this way, the Commodity Credit Corporation would have certificated stocks to make up any underestimation of domestic consumption.

E. Time limitations of certificates issued by CCC

Certificates issued or reissued by the CCC in conjunction with sale of its stocks could be used by mills until the November 30 following the end of the crop year in which they were issued or reissued.

VII. SUPPORT PRICES

A. At farm level only

As under the present CCC loan, differentials for grade and staple length could be included in the loan schedule. The base quality could be Middling fifteen-sixteenths inch, as at present.

B. At all marketing levels

Assuming the plan included support prices for cotton plus certificates at all marketing levels, the support prices at the local markets would be above the farm-loan level by a merchandising margin. Central market support prices for cotton plus certificates would have an additional merchandising margin and allowance for additional marketing charges added.

VIII. PRODUCTION NOT COVERED BY CERTIFICATES

There would normally be no production controls. If growers produced more than the domestic allotment, the excess would be marketed at a free-market price. This cotton could not go into domestic consumption but would be sold for export at whatever price it would bring. It might be desirable to support nonallotment cotton at a low level, perhaps 60 percent of parity.

If a depression occurred, very large surpluses might accumulate rapidly. As a safeguard against such an eventuality, the authority for production controls could be continued.

B. Wheat[6]

There would be various different ways of applying an allotment plan involving certificates without a fixed-value tag. The basic features selected for presentation here are approximately the same as those most often discussed for cotton.

1. Basic features

(*a*) Wheat production equal to estimated domestic consumption of wheat processed for food would be supported at a national annual average of 100 percent of parity.

(*b*) Each farmer would be given an allotment based on historical production and negotiable marketing certificates for the bushels covered by the allotment. The certificates would have no value tag, but would tend to sell in the market at about the difference between the support and the current free-market price for wheat.

(*c*) Processors of wheat for food use would have to acquire certificates equal in bushels to wheat processed and sold for domestic food use. They would have to deposit them periodically with the CCC or some other Government agency. Wheat ground for the farmer's home use could be exempted, or the farmer could, on request to CCC, be given nontransferrable certificates to be filed by the miller.

[6] Prepared in October–November 1953.

(*d*) Importers of flour and other wheat products would have to purchase certificates in the market equal to the wheat equivalent of the imports.

(*e*) Exports of flour and other products might be exempted from the certificate system, allowing wheat for that purpose to be milled without certificates with subsequent proof of export to be submitted to CCC. If certificates were required for wheat milled for export, reimbursement might be made directly by CCC for the actual expenditure for the certificates upon submission by the processor of proof of export, or by giving "refund" certificates which could be sold in the market or to CCC.

(*f*) Wheat covered by certificates would be eligible for CCC loans at the support price, with allowances for seasonal, regional, and quality factors, or it could be sold with certificates in the market.

(*g*) After sale by farmers the certificates would not be attached to particular bushels and certificates could be used in conjunction with any types and grades.

(*h*) Wheat production in excess of allotments could be sold by farmers for export, feed, or other nonfood uses without certificates. It could be used without restriction on farms where grown.

(*i*) There would also be a support price for nonallotment wheat based on the feed value of wheat relative to corn, so that a decline in the free market price of wheat would not force an undue amount into feed use and interfere with the corn market.

(*j*) Authority similar to that at present would permit CCC to sell wheat with certificates to processors at 105 percent of the prevailing support price or at the prevailing support price plus carrying costs and interest, whichever was higher. Because of the relatively high seasonal variation in wheat prices, it would appear necessary to permit CCC sales at less than the 105 percent figure in the earlier part of the crop year. In addition, CCC should be authorized to issue certificates for wheat in its inventory and to sell wheat from its inventory with certificates as needed for the regulation of supply in the domestic food wheat market. As a safeguard against the contingency of crop failures, authority to suspend the certificate system would seem desirable. This would be comparable to the authority to suspend sugar quotas.

(*k*) If it were desired to regulate the marketing of domestic wheat for food at all stages, this could be done by having CCC purchase and sell wheat plus certificates at all levels of the marketing process for food wheat. The plan could provide for purchases at not less than 95 percent of parity, and sales at not more than 105 percent of parity, or cost plus storage and interest, whichever is higher, basis terminal markets.

2. Allotments

Estimates of domestic consumption for the next crop year and allotments to farmers would have to be made in advance of the planting of winter wheat. Allotments would be made to States, counties, and individual farmers in proportion to average production in the specified period. It would be expected that the annual national domestic allotment would be in the neighborhood of 500 million bushels, approximately half of total United States production.

3. Certificates

Certificates would be distributed to farmers between May 1 and May 15 of each year. They would be dated so as to permit farmers to make sales of wheat plus certificates from June 1 until May 31 of the following year. Farmers would be able to obtain CCC loans on wheat plus certificates from June 1 until perhaps April 30 of the following year. Food processors would have until the following November 30 to use the certificates.

4. Mechanics of using certificates

(*a*) *Farmers.*—Each farmer would be issued certificates in terms of bushels for the total amount of his allotment. The farmer could obtain nonrecourse loan from CCC pledging his wheat and the covering certificate. It is presumed that the loan rate for wheat plus certificate would include location and grade differentials much the same as under the present program. Loans could be redeemed at any time up to April 30 of the following year, upon payment of interest and storage costs. If grain under loan has not been stored separately, the farmer would be entitled to receive the same quality (quality being used for convenience to include type, grade, protein content, etc.) placed under loan.

To facilitate handling of grades lower than No. 3 in situations in which the farmer's production of better grades was less than his allotment, provision could be made for purchases of wheat plus certificates, rather than loans, by CCC, with authority for resale of the wheat locally.

The farmer could also sell the wheat covered by certificates in the market, transferring title to both the wheat and certificates to the buyer.

The farmer could sell nonallotment wheat in the open market or use it for seed and feeding. Wheat not covered by certificates would not be eligible for 100-percent CCC loans.

(*b*) *Merchants and elevators.*—Local elevator buyers could separate wheat from the negotiable certificates, selling wheat and certificates independently, if desired, in the grain trade or to others. Wheat bought with certificates and nonallotment wheat could be commingled. If the plan includes sales to CCC at support levels, such sales would have to be in a package deal of wheat plus certificates. (The actual bushels would not need to be those received from a farmer on a specific certificate.)

Grain merchants at subterminal or terminal markets (and processors to some extent) would buy wheat and/or certificates from local elevators. Certificates could be sold independently, if desired, in the grain trade or to others. Sales to CCC at support levels would be a package deal as in the case of local elevator sales.

Line elevators and cooperative elevators might, of course, handle the transfer of wheat plus certificates as part of an integrated operation.

(*c*) *Processors.*—Processors could buy wheat and certificates separately or in a package deal from the grain trade or from CCC. Periodically, perhaps as of the end of each month, processors of wheat for food would have to file reports on wheat ground and turn in an equivalent amount of certificates to CCC.

Except for any permitted exemptions, a processor grinding wheat for which he did not have certificates would be required to pay an

amount equal to the value of certificates as of the end of the month, plus an amount of perhaps 50 cents per bushel.

5. Schedules of support prices

(*a*) *At farm level.*—Wheat prices have had relatively wide seasonal variations and in most years have been substantially below support levels in the early part of the crop year. As under the present CCC loan, monthly differentials could be included to reflect interest and storage costs.

(*b*) *At all marketing levels.*—Assuming the plan included support prices for wheat plus certificates at all marketing levels, the monthly support prices at the country elevator level would be above the farm loan level by a merchandising margin. Terminal market support prices for wheat plus certificates could be on an in-store basis. There might be more than one transaction between the local and the terminal elevator, and the schedules of price supports at all levels of wheat marketing would require thorough analysis of marketing margins and discussions with the trade.

6. Value of certificates

It would be expected that certificates would sell at approximately the same current value throughout the country, and would probably reflect the prevailing difference between the support price and the free-market price of hard milling wheat at Kansas City or Minneapolis.

If price supports for each type of wheat were established in precise accord with domestic milling demands, the free-market price plus the value of certificates would equal support prices. With a price support structure like that in the present CCC loan program, however, the free-market price plus certificate value would tend to be less than "support" for types of wheat which, from a milling standpoint, were relatively plentiful. For types which were scarce relative to domestic milling demands, the price of wheat plus certificates would tend to be above support levels.

If farmers could not find ready buyers for wheat plus certificates, they would place them under a CCC loan. Conversely, if the grain trade or millers could not buy certificates in the market, they could buy them (plus wheat) from CCC. Regional and quality problems are considered below.

The quantitative importance of the problems should not be overemphasized, however, as certificates would cover only about half or less of total wheat production. For example, based on historical production, certificates for the soft red winter wheat area would probably be in the neighborhood of 100 million bushels, which would not be greatly in excess of milling requirements for this type of wheat. The problem would probably be more serious in the white wheat area of the Pacific Northwest. A surplus of certificates would also be likely in the Southwest, but this would not build up stocks of wheat in CCC which would be difficult to dispose of.

7. Interregional and quality differentials

The composition of the allotment wheat sold (or placed under CCC loan) with certificates by farmers would be expected to differ from one crop year to another. It would be affected especially by the relative amounts of various types and grades produced, differentials in CCC supports, and demands for various qualities for domestic processing

and export. Types and grades of wheat which were relatively plentiful (considering the market price of wheat plus certificates as compared with support price) would tend to flow from the farmer to CCC. Under a plan of supports at all marketing levels, these flows might be augmented at subsequent stages of marketing, and increase the CCC stocks of wheat.

Certificates available to processors through usual market channels would be decreased to the extent of the movement of certificates into CCC. Ultimately, during a crop year, it might be expected that processors would turn to CCC for certificates. As CCC would sell certificates only with wheat, the processor would be unlikely in any event to get the precise type needed for processing. If most CCC stocks were selling commercially at discounts greater than the differentials fixed in support schedules, the processor could take a substantial loss in exchanging actual wheat in the market for other wheat of milling quality. In succeeding crop years, changes in support price differentials would tend to bring adjustment. It is possible, however, that, because of unforeseeable changes in production of particular qualities, the change in differentials would aggravate rather than adjust the situation, and regional factors might also tend to delay adjustments.

An opposite sort of problem could occur in the case of a type or quality of wheat which was relatively scarce, such as durum in the present (1953) crop year. A farmer producing only durum wheat, and whose allotment and certificate covered half his production, would undoubtedly sell his entire crop in the market. At some stage of marketing, or at the processor level, certificates would have to be found to match up in quantity the durum sold by the farmer without certificates. It might be expected that some terminal merchants operating over wide areas and in the wheat export business would have excess certificates to be used. Or it might be possible to purchase certificates from other merchants or in an open market independently from wheat. A third possibility would be the purchase of wheat plus certificates from CCC which might necessitate the disposition of unwanted wheat.

8. Risks and value of certificates

For holders of wheat with certificates, the risks from changes in the value of certificates would probably be offset largely by reciprocal changes in the price of wheat. As the price of wheat rose, the value of certificates would fall and vice versa. This is expected to occur because the price of the two together would be expected to equal the support price.

Under a plan of price supports at all levels of marketing of wheat, the risks on equivalent holdings of wheat and certificates would appear to be relatively negligible during most of the crop year, especially if seasonal increases in support prices closely approximated storage and interest costs.

Holders of certificates who did not own wheat (or wheat futures) would, of course, be subject to the risk of changes in the value of certificates. Holders of wheat who did not have certificates could hedge in the futures market, where it is assumed that prices would move with the free market price of wheat. A holder of both wheat and certificates who sold futures against the wheat would be subject to the risk of changing value of certificates.

The value of certificates might be affected for any holder by changes in the general level of supports for one crop as compared to the succeeding crop. Under past CCC loan programs, minimum levels have been announced prior to seeding time. If the levels announced, for example, in August 1954 for the crop year beginning July 1955 were higher than the levels for the 1954 crop, processors, who would be permitted to use certificates issued for the 1954 crop until November 30, 1955, might be expected to bid up the price of such certificates, and acquire somewhat larger inventories of both wheat and certificates. Other persons would also be likely to bid for certificates in the hope of sales to processors. Prices of wheat plus certificates might rise to a point at which CCC would make wheat and certificates available to the market, if it had stocks in its possession.

On the other hand, if the announced price support levels were lower for the following crop, there would be some tendency for more certificates and wheat to get into the hands of CCC. If the size of the change in support price levels from one year to another were relatively small, the probable adjustment would not be serious, but persons who held only certificates and persons holding both wheat and equivalent certificates would have gains or losses.

9. Transfer of risks

It seems likely that in the initial stages certificates would move with wheat through usual marketing channels. For the local elevator especially, most, at least, of the risk of changes in the price of wheat and in the value of certificates could be transferred by "on track" or "to arrive" sales to terminal market merchants, or under the plan providing supports at all marketing levels by sales to CCC of wheat plus certificates. It seems possible that a system of quotations would develop for "on track" and "to arrive" sales of wheat with accompanying certificates and for wheat without certificates. On wheat not covered by certificates, the local elevator could make cash sales at fixed price, on track or to arrive, or hedge in the futures market.

Terminal and subterminal market merchants might also make fixed price cash or forward sales of wheat plus certificates to mills, and could make package sales to CCC under a plan of supports at all marketing levels for wheat. Wheat not covered by certificates could be hedged in the futures market. A substantial decrease in use of the futures markets might make them less valuable as price-registering and hedging mediums.

It would be expected that most commercial stocks of wheat for domestic food use would be held at the terminal and subterminal level of the marketing process as at present. Such holders might be willing to assume the risks arising from lack of reciprocal changes in prices of wheat and certificates and from changes in the price of wheat plus certificates.

Alternatively, wheat might be hedged by sales in the futures markets and certificates sold in a certificate market. Mills and other merchants would be potential buyers, but some speculators would undoubtedly be necessary. Possibly, an organized market in certificates would develop or, if desired, such a development could be encouraged. Provision would be needed for mailing time to permit delivery of certificates, such as the 3-day rule in the stock market. Such a market would provide knowledge of fluctuations in value of certificates and facilitate trading in certificates by nontrade interests.

Whether sufficient certificates would be available in a certificate market to give representative quotations is at least open to question. Some certificates would flow from farmers to CCC and ultimately be sold direct by CCC to processors. Other certificates would be handled by integrated firms owning local elevators or purchased directly at local elevators by processors. And in other instances local elevators would prefer to make fixed-price cash sales to merchants, who would prefer to hold the certificates until "package" sales of wheat and certificates were made.

A more intricate type of market would be a deferred or forward market for certificates. In such a market the dealing would be in contracts calling for the delivery of certificates in a subsequent month or months. Presumably, as in the case of futures contracts, few certificates would actually be delivered, but a hedge would be obtained against the risks of changes in value of certificates. Merchants could also sell contracts for deferred delivery in anticipation of purchases of certificates and mills could buy deferred contracts in anticipation of flour sales. Such deferred contracts could become an easy speculative medium. Quotations would be public and might tend to smooth price fluctuations. But the contracts could become much greater in quantity than available certificates, with consequent danger of price manipulation and corners, and result in violent public and farm reaction.

10. Summary

It is evident that the allotment plan with negotiable certificates would be relatively complicated and administratively difficult. Especially if the plan included supports at all levels of marketing, the Government might be involved in the handling of a considerable portion of the movement of domestic allotment wheat and certificates. This feature might remove some of the incentive to efficiency in the private handling of the wheat used domestically for food. On the other hand, the plan of certificates without a value tag would not involve the difficulties which might result from errors in estimating in advance of the marketing year the average national price of wheat received by farmers, which would be required under a fixed-value certificate plan.

11. Possible variant to CCC support at all levels of marketing

This variant would provide for (1) CCC purchases of certificates only from the first buyer, generally the local elevator, and (2) purchases by processors of wheat for domestic food use without certificates when proof is submitted that prices paid equalled 105 percent of parity.

Support prices at the local elevator level are needed to maintain the price of wheat plus certificates. Disinclination by some farmers to take CCC loans, or difficulties in connection with storage space, might result in heavy marketings early in the crop year. Terminal market merchants might "hold off" bids, further depressing prices. There might be fewer situations of this type under an allotment plan because of the probable reduction of old crop carryovers.

A plan with supports at all levels of marketing would meet such situations. The variant considered here, of purchases by CCC of certificates only from the first buyer, would also tend to meet the

situations, and leave more flexibility in the channels of marketing beyond the local elevator. The farmer could get loans from CCC, and the first buyer would have support for his certificates, but would not have to make a package sale of wheat plus certificates. Prices of wheat plus certificates would not be supported at later stages in the marketing process.

Under such a variant the price support for certificates would have to be determined for each day by CCC on the basis of the difference between the closing price of the basic grade of wheat on the preceding day and the support price for that grade. This would be similar to the daily determination of the subsidy in connection with IWA exports. This variant might result in purchase of certificates by CCC without an equivalent amount of wheat. It is conceivable that CCC might even have to go into the market and buy wheat to make sales of wheat plus certificates to processors. It seems likely, however, that the fact that CCC would stand ready to buy certificates would give them a base value in the market and make it unnecessary for CCC to buy except under most unusual circumstances.

Provision for purchase of wheat without certificates upon proof that prices paid equalled 105 percent of prevailing support levels would also introduce some flexibility. This level might be somewhat higher as the season progressed. It would tend to ease the processor's problem of obtaining desired milling qualities, and to reduce the quantity of stocks necessary for CCC to carry.

2. OTHER STUDIES

A. Price Support Levels for Feed Wheat Under a Two-Price Plan[7]

The two-price plan most actively discussed for wheat involves a Commodity Credit Corporation loan at 60 percent of parity or at the support price for corn, whichever is higher. The following statement raises some of the major questions involved in determining an appropriate support level for nonallotment wheat, a significant portion of which would be used for feed.

A. *Basic level of the loan rate.*—1. Although we have referred to the loan rate as a support price for feed wheat, it would, under this particular two-price plan, be the only direct support available for wheat for all uses. One of the two minimum loan rates specified is 60 percent of parity for wheat. Based on old parity, $2.45 per bushel as of September 15, 1953, this would be $1.47 per bushel. However, 60 percent of the new or modernized parity for wheat, $2.07 per bushel as of September 15, would be only $1.24 per bushel.

2. Sixty percent of modernized parity for wheat is slightly lower than 80 percent of modernized parity for corn. Given the supply percentage and price support schedule in the act of 1949, it is unlikely that the mandatory minimum support level for corn would drop below 80 percent of parity. Hence, with wheat supports at 60 percent of new parity, the second of the two minima would quite certainly apply—that is, the loan rate for wheat would be set at not less than the loan rate for corn.

3. Under high employment conditions, corn prices are likely to average somewhat above 90 percent of new parity. Allowing for the

[7] Prepared in October 1953.

heavier weight of a bushel of wheat, 90 percent of new parity for corn ($1.42 per bushel) is equivalent to $1.52 per bushel for wheat. This figure is in excess of 60 percent of old parity for wheat. Hence, under favorable economic conditions, a minimum support level for wheat at 60 percent of old parity would not prevent wheat from moving freely into feed use. A minimum support for wheat based on 60 percent of new parity would not hold wheat out of the feed market under any circumstances that can reasonably be expected.

The remainder of this section will assume that the minimum loan rate for wheat is based upon the loan rate actually in effect for corn.

4. This does not mean that a bushel of wheat should be supported at the same level as a bushel of corn. Chemical analyses and feeding experiments seem to indicate that the feeding value of wheat is at least equal to that of corn on a pound for pound basis. Since a bushel of wheat is 7 percent heavier than a bushel of corn, its value for feeding at a given location should be about 10 cents a bushel greater than that of corn when corn supports are in the neighborhood of $1.40 or $1.50 per bushel.

5. One policy question which would influence the level at which wheat prices were to be supported is whether it is desired to place moderate restraints on the flow of wheat into feeding, or whether it is desired to expedite it as much as possible. If wheat were slightly undersupported relative to corn the wheat carryover would be held to a minimum, as would CCC support activities on wheat. If wheat were supported a little high relative to corn, CCC would have a moderately active loan program, particularly at the harvest season, and would be more likely to hold some carryover stocks of wheat at the end of a marketing year.

B. *Grade differentials in a loan rate for wheat.*—1. The existing support program for wheat recognizes price differentials between grades. However, the differentials in the 1953 loan program, expressed as discounts below the loan rate for No. 1 wheat, ranged mostly from 1 to a cents a bushel. There may be additional discounts ranging from 1 to maximum of 15 cents a bushel on account of smut and garlic. The 1953 wheat loan program also recognizes protein premiums ranging from 1 to a maximum of 10 cents per bushel.

2. If the loan rate for wheat under a two-price plan is to have grade differentials it is not clear that they should be the same as those in the existing loan program. Wheat for domestic milling might reflect about the same differentials as those now existing. However, as the marketing certificates would have the same value for all grades of wheat, whatever grade differentials arose would have to be reflected in market prices of the wheat itself. The effect of grade differentials on wheat exports would also have to be reconsidered.

3. Presumably, the range of premiums and discounts on wheat for feed would be narrower than those now current for wheat of milling quality. One possibility might be to set the loan rate for wheat of (say) No. 4 grade equal pound for pound to the loan rate for corn grading No. 3 or better. Wheat of higher grades and with protein premiums would presumably average above the loan rate for No. 4 wheat.

But this would depend upon the degree of substitutability between different grades of wheat for milling purposes and the relative supplies of each grade produced in a given year. If the supply of high-protein wheat in a particular year were extremely large, its differential over

other wheat might narrow to whatever differential the feed market as such would support. In this case, some high grade, high-protein wheat would be fed. But if supplies of high-protein wheat decreased moderately, part of the milling premium would reappear.

4. If the loan structure recognized typical milling premiums for high grade and high protein wheat, these wheats would be held out of the feed market even in years when they were in relative oversupply for milling purposes. If the loan differentials were much smaller than has been typical for wheat of milling quality, the export market might still support differentials for high-grade wheat larger than those provided in the loan rates.

5. Government-support activity would be minimized by a program which allowed no premiums for high-grade and high-protein wheat. However, if premiums for high quality wheat largely disappeared under a two-price plan, this would constitute an added disadvantage or burden upon growers of high-quality wheat. The magnitude of this problem would have to be studied very carefully in working out administrative rules for operation of the "low level" loan under a two-price plan.

C. *Area differentials.*—1. The surplus-producing areas for wheat in the United States are well defined, as are the major channels and directions in which wheat moves to market. Area differentials in the existing support-price structure are generally set on the basis of transportation and other costs involved in moving wheat from producing areas to other points along its normal line of travel to market.

2. However, the loan rates for corn are based to a large extent upon average price differentials over a period of years. In general, the 10-year average price differential between, say, Iowa and Ohio would be less than the average freight costs between the 2 States. This is because in years of short corn crops in the western Corn Belt, corn may move from east to west rather than from west to east.

3. This suggests two alternative methods for setting area differentials in the loan rate for wheat when the market price of wheat is expected to "ride" on that of corn. One would be to set the loan rate for wheat in each county equal pound for pound to the county loan rate for corn. The other would be to set the loan rate for wheat in (for example) western Kansas equal to the loan rate for corn at Kansas City (adjusted for the greater weight of a bushel of wheat) minus freight.

4. As the spread between corn loan rates at Kansas City and Chicago is much less than the freight rate between them, a loan rate for wheat at Chicago based on Kansas City plus freight would tend to make wheat more expensive than corn in the areas served out of Chicago. The use of wheat for feed in these areas would be discouraged, so that most of the wheat feeding would take place farther west in the areas of specialized wheat production.

5. The above problems of geographical and grade differentials would require detailed study. It would seem advisable to retain some administrative discretion in any two-price legislation, permitting the Secretary of Agriculture to interpret some fairly general language to the effect that "the loan rate for wheat shall not be less than the loan rate for corn."

6. A final point which might be raised is whether the loan rate for wheat under a two-price plan should contain the same storage allowance as does the existing loan program. In effect, the loan rate for wheat at harvesttime is equal to the announced support price less storage charges. If the farmer delivers wheat in April or May of the following year he obtains the full loan rate, but not before. This allowance tends to reduce loan activity and encourage private marketing and storage operations.

B. Alternative Methods for Distributing the Marketing Certificate Allotment for Wheat Under a Two Price Plan [8]

The question to which particular attention was requested in this study was the manner in which quantitative (bushel) allotments should be handled under a two-price plan for those small farms which currently are exempt from marketing quota provisions. Exemption from the marketing quota for those farms on which the acreage planted to wheat does not exceed 15 acres (or on which the production is less than 200 bushels), as the legislation currently provides, works reasonably well in connection with the present price-support program. However, such an exemption might raise serious problems when applied to a two-price plan under which the marketing certificate allotment, representing the quantity required for domestic food use, might be around 500 million bushels, only 50 to 60 percent of the allotment now in effect for the 1954 crop.

I. Relevant provisions of current legislation affecting marketing quotas and acreage allotments for wheat

A. A national acreage allotment must be proclaimed each year, except in case of a national emergency, irrespective of the supply situation. For the 1954 crop this allotment has been established at 62 million acres. For succeeding years the national acreage allotment is the acreage which will, on the basis of average yields, produce an amount of wheat adequate, together with the carryover and imports, to make available a normal year's domestic consumption and exports plus 30 percent thereof. Such national allotment may be not less than 55 million acres.

B. A national marketing quota must be proclaimed, except in case of a national emergency, whenever the Secretary of Agriculture determines that the "total supply" of wheat for the marketing year will exceed the "normal supply" for that marketing year by more than 20 percent. Such a proclamation has been made, and a national marketing quota is in effect for the 1954 crop of wheat, as it was approved by more than two-thirds of the wheat farmers voting.

C. The national acreage allotment is required to be apportioned among States, counties, and farms in accordance with formulas contained in the legislation.

D. The farm acreage allotment serves as the basis for determining the farm marketing quota, and in the case of those small farms to which the marketing quota is not applicable, as a basis for determining eligibility for price support.

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[8] Prepared in September 1953.

II. Procedure followed under the current acreage allotment and marketing quota program

A. An acreage allotment is established by the county committee for each wheat producing farm.

1. Five principal factors are considered—the past wheat acreage history; the crop rotation system followed; the tillable acreage; the type of soil and its suitability for the production of wheat; and the topography of the land.

2. The essential data are obtained through a farm-to-farm canvass. The information is recorded on a listing sheet which also provides space for use of local committees in making adjustments and in arriving at a base wheat acreage which is used as the basis for the establishment of an acreage allotment for each individual farm with a wheat acreage history during at least 1 of the 3 most recent years.

B. A normal yield is established for each county as an aid in the establishment of normal yields for farms for which yield data are inadequate. Yields also are established on an informal basis for each township or community in principal wheat areas.

C. A normal yield is established only for each farm for which the acreage planted to wheat is more than 15 acres, and for which the wheat acreage allotment has been exceeded. This is used as the basis for the computation of the marketing quota penalty.

D. It should be noted that, while an acreage allotment is established for each farm having a wheat history, a farm marketing quota is applicable only for those farms on which (i) the normal production of the acreage planted to wheat is 200 bushels or more, and (ii) the acreage planted to wheat exceeds 15 acres. If, however, the planted acreage exceeds 15 acres on any farm for which an allotment of less than 15 acres is established, the marketing quota penalty is based on the acreage in excess of the allotment.

III. Alternative procedures for distributing the marketing certificate allotment to all farms under a two-price plan

There follows a discussion of three alternative procedures which could be used in determining the marketing certificate allotment for any farm under a two-price plan for wheat.

A. *The uniform percentage procedure.*—Under this procedure a single percentage factor would be developed prior to the time marketing begins, representing the proportion which the allotment for domestic food use represented of the estimated total wheat production. This single factor would be applied to all producers' sales of wheat during the marketing year. Thus, in any sale a producer would receive the domestic (higher) price for a portion of the quantity sold, and the free market price for the balance.

1. The main advantages of this procedure are that it is simple to explain and could be readily understood, and the administrative costs of operation would be minimized. It would not be necessary to determine a "normal yield" for each farm, nor to determine the actual acreage and production on individual farms.

2. Some disadvantages of the procedure are as follows:

(*a*) It would result in gross inequity to many producers. Some producers, favored by better-than-average growing conditions, would be able to obtain the higher price on quantities of wheat substantially larger than their normal or intended certificate allot-

ment; other producers would be limited to smaller-than-average quantities at this price because of unusually poor crops.

(*b*) The percentage factor must be determined prior to the time marketing begins. This would mean not later than about the time the June crop report is released, and prior to the time any information would be available on the average yield of spring wheat. In such circumstances it would be difficult to arrive at a proper value for this factor.

B. *A minimum allotment procedure.*—Under this procedure a minimum allotment, expressed in bushels (or a combination of acres and bushels), would be established for each farm. This is the type of program now provided by legislation under which a producer is free of the marketing quota penalty if the normal production of his planted acreage is less than 200 bushels, or if the acreage planted does not exceed 15 acres.

1. *Advantages and disadvantages.*—There appear to be no real advantages to a procedure of this kind (minimum approximating that under current marketing quota provisions) when considered in connection with a two-price plan. There may be some merit in a minimum allotment or quota procedure as a part of the current marketing quota program ecnompassing the support of the entire production at a stipulated price. It may be viewed as a positive action taken to protect the interests of the small producer. It frees such small producer of any inconveniences associated with a quota program, provided the planted acreage does not exceed the "minimum" of 15 acres. It must be remembered, however, that this program also withholds price support from such small producer if the planted acreage exceeds the allotment—and there is no "minimum allotment."

While this feature tends to make a marketing-quota program of the type now provided for more acceptable, the same argument loses its force when applied to a two-price plan under which no effort would be made to control the total production or marketing, and the price is free to fluctuate with demand. Under such a plan, producers would obtain a higher price for that portion of the production required for domestic food use through the transfer of certificates. Small producers would not be subjected to the marketing inconveniences associated with the type of quota program now provided for.

The effect of a "minimum provision" may be illustrated through a study of the size of allotments established in 1950, when wheat-acreage allotments last were in effect.

(*a*) About 21 percent of the allotments established were in the range of 1 to 5 acres.

(*b*) About 39 percent of the allotments were in the range of 1 to 10 acres.

(*c*) About 50 percent of the allotments, that is, 1,036,000 of a total of 2,067,000, were in the range of 1 to 15 acres.

(*d*) Based upon the size of the 1950 wheat-acreage allotments, the seeded acreage for the "1- to 15-acre group" would constitute about 9.5 percent of the total seeded acreage and account for about 12 percent of the production.

(*e*) The total allotment assigned to farms under the 1950 program amounted to 72,176,000 acres. This may be compared with the 1954 allotment of 62 million acres.

(*f*) If each of the 1,036,000 farms mentioned in point (*e*) planted 15 acres, the "1- to 15-acre group" conceivably could account for 15,540,000 acres, or 25 percent of the 1954 acreage allotment. Assuming, for discussion, that this group would account for the same proportion of production, such production would be equivalent to almost 50 percent of the total requirements for domestic food use. The present exemptions for small acreages could thus eat up a major share of the certificate allotment under a two-price plan.

C. *Procedure providing for the apportionment of the marketing-certificate allotment on the basis of the normal production of wheat (in effect, no minimum).*—Under this procedure, as applied to a two-price plan, acreage allotments could be established for all farms on the basis of the same factors now considered under the current program. Likewise, a normal yield would be established for each allotment farm. A farm-marketing certificate allotment covering that quantity of wheat required for domestic food use would be issued to each wheat producer on the basis of his normal production (the normal yield of the acreage allotment).

There would be no restriction on the total marketings or the acreage which could be grown by any producer. All producers could sell freely at the market price and all producers would have the opportunity of selling, at the higher price through use of the marketing certificate, their proportionate part of that quantity of wheat required for domestic food use. In order to discourage the planting of large additional acreages as a basis for larger farm-marketing certificate allotments in future years, consideration might be given to a provision in the law which would rule out "excess production" in the calculation of future allotments. The present marketing quota law provides that overplanted acreages shall not be counted in the calculation of allotments for cotton, peanuts, and rice.

V. UNDEREMPLOYED RURAL PEOPLE

Introductory Note

The following study was prepared in the Department of Agriculture during June 1953 in response to a request from Secretary Benson. A summary of this study, combined with suggestions received from groups outside the Department, was prepared for the National Agricultural Advisory Commission and was discussed at its June 29–July 1 meeting.

The Commission decided to concentrate its attention during the remaining months of 1953 upon the price-support program, which has only limited relevance to the problems of many underemployed rural people. The President, in his farm program message of January 11, 1954, indicated that the Secretary of Agriculture in cooperation with the Commission, will give further special attention during 1954 to the problems peculiar to small farmers.

A. The Problem

Policy and program formulation in agriculture cannot ignore the problems created by the existence of a large body of low-income, underemployed rural people. The problem assumes importance both from the standpoint of the low levels of living of these farm families even in a period of general prosperity, and of the low levels of productivity of workers in these families. Low incomes are usually a direct consequence of the low production per worker. These families represent a large reservoir of untapped manpower that is potentially much more productive either in agriculture or in industry, as well as a large potential market for agricultural products and products of industry. In addition, these low-income rural families are contributing a greater than proportionate share of the future citizens of America. How well the advantages of education and training are made available to this group may have much to do with the quality, competence, and loyalty of our future adult population.

Extent of low incomes and underemployment in agriculture

Out of a total of about 5.4 million farms enumerated by the Bureau of the Census in 1950, 3.3 million or 61 percent sold less than $2,500 worth of agricultural products in 1949. Taking cash costs of production into account, this means that the upper range of net cash incomes from farming operations on these farms was probably less than $1,500 in that relatively prosperous year.

Over 600,000 of the census farms were classified as part-time farms and over 1 million were classified as residential farms. Most of these "farms" received the major part of their income from nonagricultural sources, and altogether produced only 2 percent of the value of farm sales.

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Deducting from the above 3.3 million farms those where family incomes from all sources exceeded $2,000, those where the operators were over 65 years of age or under 25, and those where the operators were single, widowed, or divorced, leaves a group of farms where the operator probably was able-bodied and in the productive age group, with a family, and with total family income from all sources of less than $2,000 in 1949. On this basis there were 1.6 million underemployed farm operators, including part-time farmers. (See table 1.)

About half of the residential and part-time farms had total family incomes in 1949 of less than $2,000. Many of them thus are low-income families, but their problems and the solutions are of a somewhat different character than those of families living on farms where the major reliance for income is from the farming operation.

About 1.4 million census farms depended upon farming for their major source of income and had values of farm product sales of $250 to $2,499 in 1949. About 80 percent of these farms had total family incomes from all sources of less than $2,000 in 1949. These 1.1 million farms constitute the heart of the low-income farm problem. They generally have small landholdings, have insufficient livestock and equipment, have little access to sources of credit, frequently are lacking in management skills, and operate at low levels of efficiency.

Table 2, attached, summarizes the number of farms in the different economic classes of farms and indicates briefly the relative resources available in each group.

The problem of low-income farms is closely tied to the productivity of workers on these farms, and income improvement usually depends upon improvements in worker productivity. Workers on small commercial family farms (class V in table 2) produced only one-half as much in terms of value of products for sale as did workers on the medium- and large-sized commercial family farms. And workers on small-scale farms (class VI) produced only one-fourth as much. (See table 3.)

Over 20 percent of the class V farms and 33 percent of the class VI farms are cotton farms, but only 8 percent of the larger commercial farms were cotton farms. Over 70 percent of all cotton farms were in classes V and VI. Most of the sharecroppers in the South are included in these categories. Types of farms where the larger commercial farms were relatively more important than the low-production farms were cash-grain, dairy, and livestock farms. (See table 4.)

Although there are low-income and low-production farms in all parts of the United States, they are concentrated most heavily in the southeastern part of the country. Other important, though less extensive areas, are in the Lake States cutover districts, in the southern fringes of the Corn Belt States, in the Ozarks, and in the Mexican-Indian areas of New Mexico and Arizona (see attached maps).

Although about 60 percent of the low-production commercial farms in the North and West and 85 percent of those in the South had less than $2,000 total family income from all sources in 1949, about 35 percent of the large and medium family farms also had less than $2,000 net income from all sources (see table 5). More important are the high percentages of farms in certain groups that received less than $1,000 net family income from all sources. Over 70 percent of the small-scale farms (class VI) in the South were in this low-income group.

The low-income problem is particularly acute among the nonwhite farm families. In the South, 56 percent of the population in nonwhite farm-operator households was on class V and VI farms compared with 35 percent in white households. Part-time farms had a higher percentage of the white population than the nonwhite, reflecting the greater opportunities for off-farm employment by whites than nonwhites (see table 6). Seventy percent of all nonwhite farm-operator families had net incomes from all sources of less than $1,000 compared with 34 percent for the white farm families.

Any programs designed to assist on the problems of low-income farmers would require funds and personnel to be placed in the areas of greatest concentration. There were 986 counties where 50 percent or more of the commercial farms in 1950 were in the low-production category and 318 counties where 75 percent or more of the commercial farms were in this category. Table 7 indicates the regional distribution of these counties.

In addition to the families operating low-income and low-production farms there are almost a million adult workers whose principal source of income is from farm wage work, many of whom are low-income, underemployed persons because of the seasonal nature of their jobs. A major social problem is that of the approximately 400,000 domestic migratory agricultural workers and several hundred thousand more foreign agricultural workers, including a large number of Mexican "wetbacks" who are illegal entrants.

Problem situations and suggested solutions

Among the principal causes of rural underemployment are: (1) Lack of productive land and capital resources; (2) inadequate economic opportunities in the communities in which the families live; and (3) inadequate vocational training. The following suggestions are directed toward five general situations in which underemployment is found. This report does not attempt to deal with underemployment of hired laborer or migrant laborer farm families.

1. *Part-time farmers.*—The problems of underemployed part-time farmers in the main lie outside of the field of agriculture. Most part-time farmers look toward industrial or other off-farm employment for their primary livelihood. Prominent among the basic problems, therefore, are the availability of off-farm employment, readily available information as to employment opportunities, and vocational guidance or training directed toward qualifying part-time farmers for such off-farm employment.

A plan to assist underemployed part-time farmers should contain provision for a carefully developed program to stimulate industries within the areas where the problem is concentrated. Communities should be encouraged to seek for, and develop means for attracting, new industries. Individuals might be made available to go into communities upon request to survey, explore, and promote the opportunities for bringing in additional industries. Where it was impossible to develop adequate industrial opportunities, the services for channeling employment to other areas should be strengthened.

2. *Farmers on inadequate units where the possibility of adjusting to adequate units is remote.*—In areas such as the Appalachian Mountains and some of the cutover regions in the Great Lake States, there is pronounced underemployment of farm families on farms which do not

have suitable land and on which it is uneconomic to develop land for farming. These are the farms that consist of a very few acres or, if the total farm is of larger size, have only a small acreage capable of production. The farms usually are surrounded by land that cannot be brought into normal agricultural production. For instance, the farmer on a mountain side may be using all of the tillable land within a radius of several miles.

These families need increased education and vocational training to prepare both the adults and young people for other occupations, more information on off-farm job opportunities in other areas, and some means provided such as credit or grants for transportation costs which will stimulate the movement of the people to jobs where their labor may be used efficiently. In some instances the difficulties of these families could be alleviated by the development of industry in their community. In many instances, however, the population is relatively sparse and there would not be a sufficient number of potential employees to make new industrial locations attractive. Some of these farms are adjacent to forest reserves or to other public land. In these situations and possibly in others, serious consideration should be given to zoning and a long-time program for retirement of land from agricultural use. It would be ineffective to exert effort to encourage the present occupants of these farms to seek employment elsewhere, only to have the same farm subsequently occupied by another family and thus recreate the problem of underemployment.

A plan to assist these people must be built around the advancement of education, particularly of the vocational type, and the strengthening of the interchange of information between these people and the labor shortage areas. Adult and high school vocational training should be strengthened, employment service information should be increased and, where feasible, stimulation should be provided for the development of local industry. For those persons who because of age or family ties or other reasons prefer to remain in these areas, assistance can be provided through education and training in the use of those farm practices and techniques that are most efficient and best adapted to the meager resources. The long-run program, however, should be designed to result in the gradual retirement of such farms from agriculture.

3. *Farmers on inadequate farms that can be developed into adequate units.*—Underemployed farm families falling within this classification may be divided into two groups. One group consists of those families less adapted to efficient farming who probably are faced with the necessity of leaving the area in which they live in order to become fully employed. This group needs a program similar to that discussed for those families on units incapable of being adjusted to adequate farms (see sec. 2 above).

The other group consists of those farm families better adapted to conducting efficient farming operation who, through enlargement and development of their farms, can remain in agriculture on an efficient basis. These families need a program designed to help them carry out the necessary enlargement and development as rapidly as practicable. They need capital to buy additional acreages or to more fully develop their presently owned acres, to erect buildings and

fences, and establish long-range land improvements. Capital is also needed for purchase of productive livestock, machinery, and for operating expenses. These families need individual guidance in the establishment of efficient farm enterprises of adequate size. They need direct assistance from technicians to determine the enterprises that are most profitable and best suited for their resources. They need personal advice in the initiation and carrying out of the most efficient and effective farm practices. They need counsel in the selection of the best suited productive livestock and in the selection of most efficient crop varieties. These families need careful training and guidance in the preservation of their soil resources.

Vocational education of the young people must be strengthened in order to assure on the one hand that those best suited to farming have the opportunity to learn the best methods and that on the other hand, those less suited to farming may have an opportunity to learn of other trades and professions. An expanded research program, especially on farm management and marketing problems, is particularly needed.

4. *Families on units producing inadequate income because the farms are inefficiently developed and because there is insufficient working capital for efficient farm operations.*—These are the families that have sufficient land resources available for efficient operation but who are not carrying out an economic type of farm business because they are deficient in working capital, because of inadequate management or because they have not taken advantage of potential marketing opportunities. This group usually needs capital for improvement of buildings, erection of fences, for basic lime and fertilizer programs, for the purchase of machinery, productive livestock, and operating expenses.

In large part, one of the major deficiencies of this group is their management technique. Like the families faced with the problem of enlarging their units (see sec. 3 above), these families need to be shown how to properly develop their farms. They need the assistance of trained technicians in agriculture in the planning of their enterprises and in the development of an efficient well-balanced farm operation. They need education as to the most efficient techniques and practices to use in farming. They need advice as to the type of livestock that is most adaptable to their type of farming and as to the most productive crop and pasture varieties. Furthermore, these families often need to be shown the potential marketing opportunities and need the results of an expanded research program.

5. *Farmers with inadequate income because of failure to employ best technical skills.*—This is the group of underemployed farm families who most nearly resemble the efficient profitable commercial-type farmer. Their deficiency is basically a failure to keep abreast of the development of agricultural techniques and to adopt the enterprises and farm practices which are necessary in order to compete in agriculture today. The primary need of these people is education and training in the methods of better farming. In many instances, because of continued use of inefficient practices, they have depleted their capital and credit will be needed to make the changes necessary to start on the road back to successful farming operations.

B. Suggested Program of Action

A coordinated plan of action to assist and alleviate the problems of underemployed farmers must reach outside the area normally considered as agriculture. The solution of the problems of underemployed part-time farmers and those on inadequate farms where development is not feasible depends upon employment in fields other than farming. Industry must be stimulated to enter some areas and a coordinated plan should provide for some means of helping local communities to awaken to their responsibility of making their areas attractive to industrial leaders. A plan to assist in this field might incorporate a cooperative arrangement between the Departments of Agriculture, Labor, and Commerce to place material in the hands of such communities in order that they might understand how to approach their problems. Through such an arrangement fieldmen might be made available to go into areas upon request to assist in the development of plans for stimulating and promoting employment opportunities.

A plan for assisting underemployed part-time farmers and those on inadequate units must also incorporate the strengthening and improvement of the flow of information regarding employment opportunities. It also must stimulate vocational education in order that the young people will have an opportunity to learn about and appraise employment opportunities outside their own community. In many instances increased assistance to education must be supplied from outside the area. Within the field of agriculture, assistance must be provided to these people through development of markets and through education and guidance in the use of most efficient farming methods in order that their farming operations, though inadequate in size, may be efficient and productive of some income. All phases of the plan must be directed toward increasing the incentive of these families to improve their positions.

The plan of action for farmers on units that need development and enlargement, where working capital is deficient and management skills are unsatisfactory must consist of a coordinated effort to make capital available, to supply guidance in management on an individual case basis, to strengthen educational facilities, and to stimulate the incentive for improvement. In the upper income levels of this group, sufficient assets for the establishment and development of proper farm operations may be available within the farm families themselves or easily accessible from private and cooperative lending institutions or from friends and relatives. In the lower income levels of this group, however, capital is probably not available on rates and terms which the families can afford from private lenders or from cooperative lending institutions.

An aggressive plan of action would probably require a considerable increase in the type of service wherein supervised credit is supplied with repayment terms fitted to the rate at which the increased income would be developed on the individual farms. This type of credit, containing provision on an individual case basis for careful guidance and careful planning in the selection of enterprises, the methods of farm development, and in the adoption of efficient practices, can supply the basic needs for capital and guidance in a single coordinated

package. Once the basic adjustments in farming have been made, and once the income from the enlargement and development of the farm begins to be received by the family, the credit requirements could be supplied by private and cooperative lending institutions, while the guidance would be provided by the lending institutions and by the presently established facilities for adult education and training in techniques of agriculture.

C. Research Needed

The problems confronting low-production and low-income farmers are extremely difficult of solution, yet relatively little research effort has been devoted specifically to these problems. Small-scale farms have not been able to adjust to changing technological and other conditions as have the larger farms, with the result that the income disparity has widened between the small and the larger commercial farms.

Studies are needed in selected areas to identify the numbers of farms in different problem situations, their location, the characteristics of the farm, facts concerning the family, and the attitudes of the people toward alternative adjustment opportunities. Such information is basic to development of specific programs and policies and in determining the quantitative and other requirements in administering programs.

A well-established coordinated plan of action for these families should be supported by marketing research directed toward the investigation of marketing opportunities for new products that might be produced in the area and the investigation of more efficient and productive ways in which farm produce can be placed on the market.

Research is needed in each of the areas to develop estimates of costs and returns from alternative crop and livestock systems of farming, from alternative combinations of labor and machines, and from alternative practices in producing crops, including hay and pasture. These estimates would serve as guides to low-production farmers and to personnel of public and private agencies who work with these farmers to indicate desirable changes in farming. Some work along this line has already been done through farm management research and through field people working with supervised credit. Starting with accomplishments to date this work should be enlarged in scope and refined as to content. Its goal should be widespread knowledge of the minimum requirements of land resources, volume of business, and efficiency of production for successful farming operations in each community.

Most farmers, and particularly those on small farms, have difficulty adapting single research results to their particular problems. Consequently, there is real need for local testing of experimental results on a whole-farm basis to make them more readily available for adoption by the smaller farmers. The Department and the land-grant colleges should cooperate in establishment and operation of small farm-scale research farms (pilot farms) in the different areas where low-production farms are important, especially where major changes in farming seem desirable. This should be recognized by appropriate legislation.

TABLE 1.—*Estimated number of underemployed farm operator families on the basis of gross farm sales, total family income, and age and marital status of operator, United States census of 1950*

Total number of farms and farm operator families	5,379,000
Farms with gross value of products of $2,500 or more	2,088,000
Farms with gross value of products of less than $2,500	3,291,000
Less families with total family income of $2,000 or more [1]	1,142,000
Less additional families with operators over 65 [1]	357,000
Less additional families with operators under 25 [1]	70,000
Less additional families with operators single, widowed or divorced [1]	100,000
Total underemployed farm operator families	1,622,000

[1] Based on a sample of 7,000 census farms used in a special study matching agricultural census schedules with population and housing schedules.

TABLE 2.—*Farms, farm sales, and farm resources by economic class, United States, census of 1950*

Economic class		Farms		Farm sales		Value of land and buildings		Cropland harvested	
Designation	Value of sales class limits	Number	Percent of all farms	Average per farm	Percent of United States total	Average per farm	Percent of United States total	Average per farm	Percent of United States total
		Thousands	*Percent*	*Dollars*	*Percent*	*Dollars*	*Percent*	*Acres*	*Percent*
Commercial farms:									
Class I	$25,000 and over	103	2	$56,074	26	$110,008	15	565.5	12
Class II	$10,000 to $24,999	381	7	14,476	25	41,318	21	306.6	21
Class III	$5,000 to $9,999	721	13	7,017	23	22,918	22	162.0	24
Class IV	$2,500 to $4,999	882	16	3,625	14	13,162	16	111.0	18
Class V	$1,200 to $2,499 [1]	902	17	1,813	7	7,829	10	58.2	11
Class VI	$250 to $1,199 [2]	717	13	720	2	4,648	4	37.0	6
Other farms:									
Part-time	$250 to $1,199 [3]	639	12	612	2	6,117	5	30.2	4
Residential	Under $250	1,030	19	82		4,675	6	17.0	4
All farms [4]		5,379	100	4,142	100	13,911	100	89.1	100

[1] Includes about 200,000 farms where the operator worked off-farm 100 or more days or had other family income that exceeded sales from the farm.

[2] The operator worked off-farm less than 100 days and the farm sales were greater than other family income.

[3] The operator worked off-farm 100 or more days or had other family income that exceeded sales from the farm.

[4] Includes about 4,000 abnormal farms such as public and private institutional farms, community projects, etc.

TABLE 3.—*Farm output per worker by economic classes of commercial farms, United States and selected areas, 1949*

Class of farm	United States	Central Iowa	Wisconsin cutover	Ozark Mountains, Mo.	Cotton Piedmont, North Carolina	Eastern hilly, Mississippi
Large and medium family farms (classes II, III, and IV)	$4,245	$6,403	$2,839	$3,707	$3,019	$2,953
Small family farms (class V)	1,835	2,536	1,665	1,873	1,685	1,671
Small-scale farms (class VI)	920	1,122	906	984	952	944

TABLE 4.—*Percentage of commercial farms by type of farm that are in small-family and small-scale classes, United States, 1950*

Type of farm	Small-family farms (class V)	Small-scale farms (class VI)	All other commercial farms (classes I to IV)
	Percent	*Percent*	*Percent*
Cash-grain	8	5	16
Cotton	22	33	8
Other field crops [1]	16	14	8
Fruit and nut, and vegetable	3	3	4
Dairy	15	9	19
Poultry	5	6	5
Other livestock	17	18	25
General	13	11	14
Miscellaneous	1	1	1
Total all types	100	100	100

[1] This group includes many farms where tobacco and peanuts are major enterprises.

TABLE 5.—*Approximate distribution of low-production farms of different economic classes by amount of net family income from all sources, 1949*

Economic class of farm and region	Number of farms	Percentage of farms in each class by family income [1]		
		Under $1,000	$1,000 to $1,999	$2,000 and over
North and West:	*Thousands*	*Percent*	*Percent*	*Percent*
Class V farms	391	20	31	49
Class VI farms	198	56	29	15
Total class V and VI	589	32	30	38
Part-time farms	280	14	21	65
Residential farms	354	20	19	61
Total part-time and residential	634	17	20	63
South: [2]				
Class V farms	510	40	35	25
Class VI farms	519	71	22	7
Total class V and VI	1,029	56	28	16
Part-time farms	364	29	35	36
Residential farms	675	43	23	34
Total part-time and residential	1,039	38	27	35
United States: Large and medium farms (classes I–IV)	2,088	12	22	66

[1] Based on sample of 7,000 Census farms used in special study matching agricultural schedules with population and housing schedules.

[2] Includes the 16 States from Delaware, Maryland, and West Virginia to Oklahoma and Texas, inclusive.

TABLE 6.—*Percentage distribution of population in farm-operator households by color and economic class of farms in the South, 1950* [1] [2]

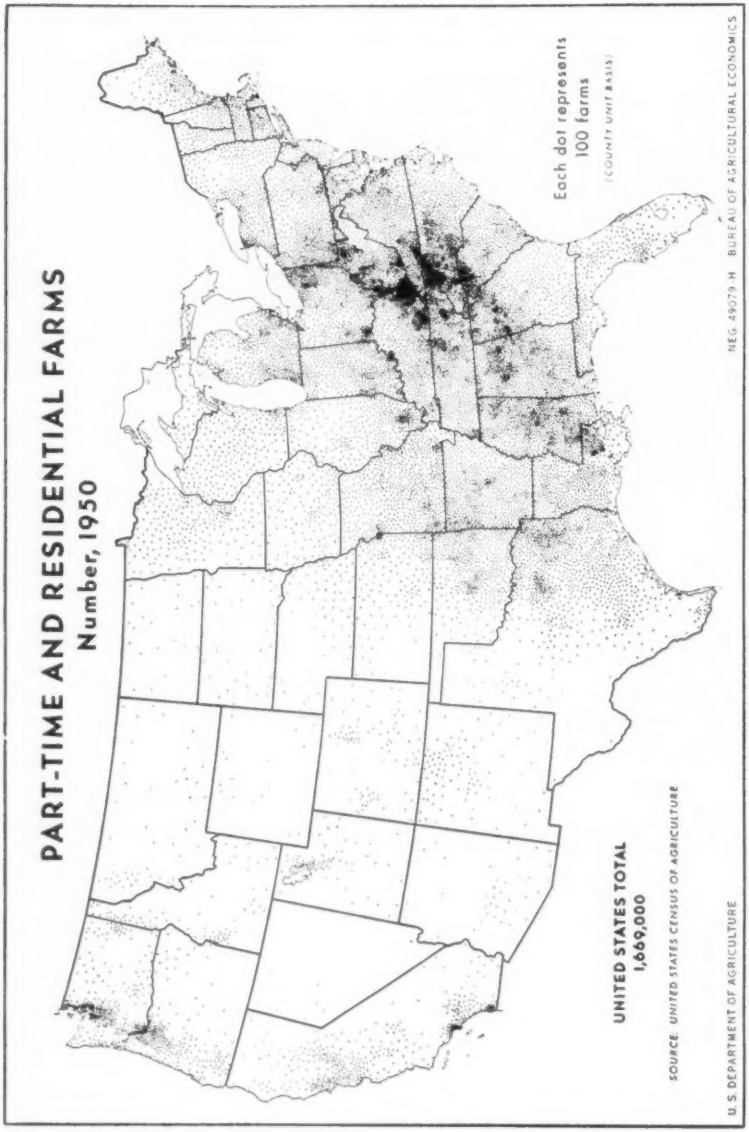
Economic class of farm	White	Nonwhite
	Percent	*Percent*
All farms	100.0	100.0
Classes I to IV	26.1	14.3
Class V	19.3	25.7
Class VI	15.5	30.3
Total, classes V and VI	34.8	56.0
Part-time	14.4	9.1
Residential	24.7	20.6
Total other farms	39.1	29.7

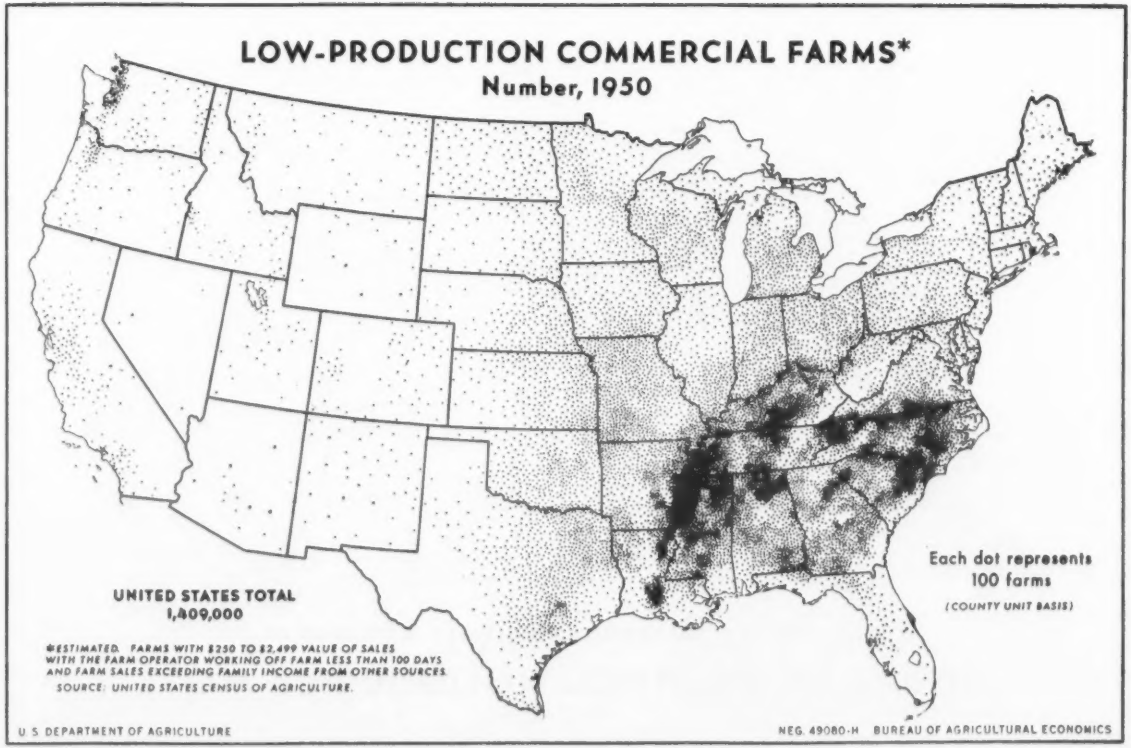
[1] Based on sample study. Population in farm-operator households in the South was 75 percent white and 25 percent nonwhite.
[2] South includes the 16 States from Delaware, Maryland, and West Virginia to Texas and Oklahoma inclusive.

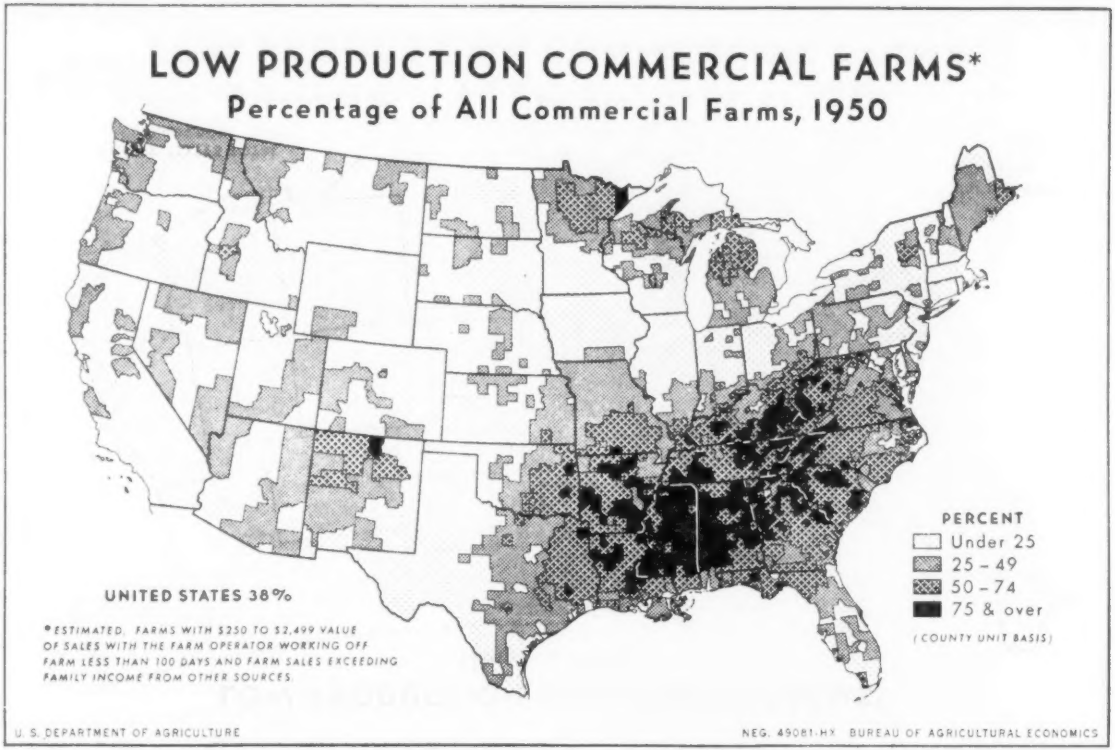
TABLE 7.—*Number of counties by regions with specified percentages of commercial farms that are low-production farms, 1950* [1]

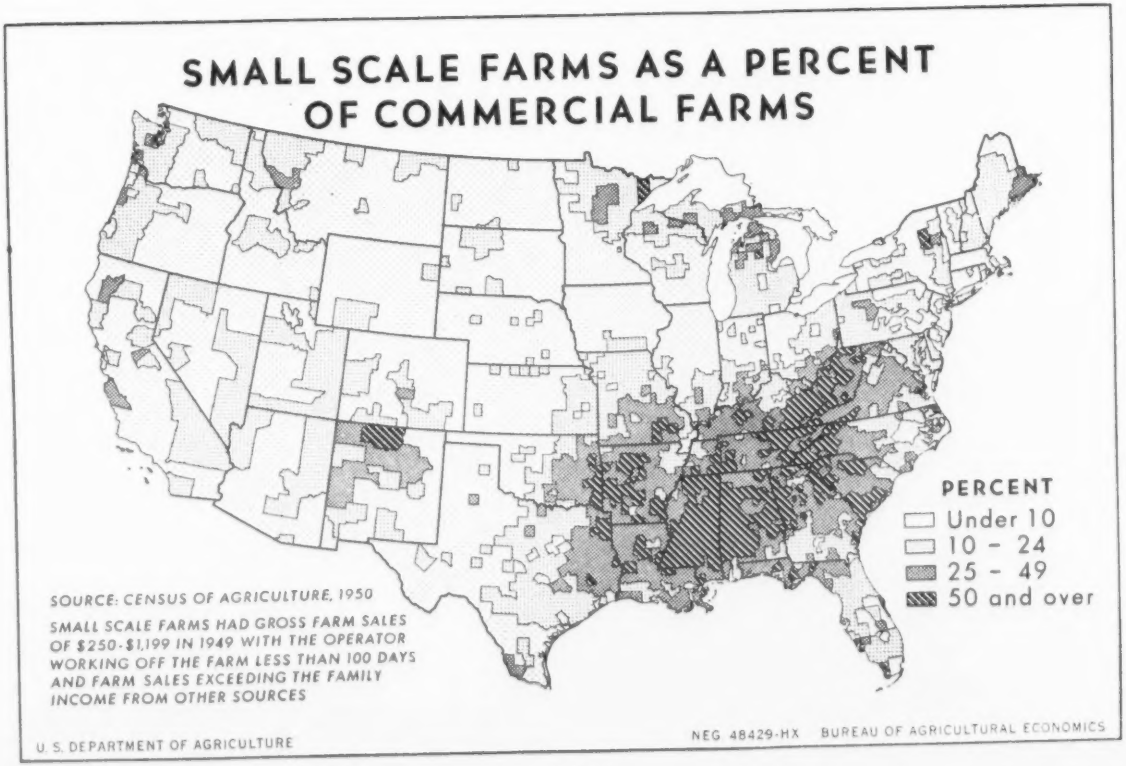
Region	Counties in region	Counties having 50 percent or more low-production farms	Counties having 75 percent or more low-production farms
	Number	*Number*	*Number*
Northeast (9 States)	157	3	
Appalachian (7 States)	497	336	105
Southeast (4 States)	339	254	108
Delta (3 States)	221	193	97
Corn Belt (5 States)	496	66	1
Lake States (3 States)	241	42	2
Northern Plains (4 States)	320	2	
Oklahoma-Texas (2 States)	331	81	4
Mountain (8 States)	278	8	1
Pacific (3 States)	133	1	
United States	3,013	986	318

[1] Farms with $250 to $2,499 value of sales with the farm-operator working off farm less than 100 days and farm sales exceeding family income from other sources.


PART-TIME AND RESIDENTIAL FARMS
Number, 1950
Each dot represents
100 farms
(COUNTY UNIT BASIS)
UNITED STATES TOTAL
1,669,000
SOURCE: UNITED STATES CENSUS OF AGRICULTURE
U.S. DEPARTMENT OF AGRICULTURE
NEG. 49079 H BUREAU OF AGRICULTURAL ECONOMICS


LOW-PRODUCTION COMMERCIAL FARMS*
Number, 1950
UNITED STATES TOTAL
1,409,000
Each dot represents
100 farms
(COUNTY UNIT BASIS)
*ESTIMATED. FARMS WITH $250 TO $2,499 VALUE OF SALES WITH THE FARM OPERATOR WORKING OFF FARM LESS THAN 100 DAYS AND FARM SALES EXCEEDING FAMILY INCOME FROM OTHER SOURCES.
SOURCE: UNITED STATES CENSUS OF AGRICULTURE.
U.S. DEPARTMENT OF AGRICULTURE
NEG. 49080-H BUREAU OF AGRICULTURAL ECONOMICS


LOW PRODUCTION COMMERCIAL FARMS*
Percentage of All Commercial Farms, 1950
PERCENT
Under 25
25 – 49
50 – 74
75 & over
(COUNTY UNIT BASIS)
UNITED STATES 38%
*ESTIMATED. FARMS WITH $250 TO $2,499 VALUE OF SALES WITH THE FARM OPERATOR WORKING OFF FARM LESS THAN 100 DAYS AND FARM SALES EXCEEDING FAMILY INCOME FROM OTHER SOURCES.
U. S. DEPARTMENT OF AGRICULTURE
NEG. 49081-HX BUREAU OF AGRICULTURAL ECONOMICS


SMALL SCALE FARMS AS A PERCENT OF COMMERCIAL FARMS
PERCENT
Under 10
10 - 24
25 - 49
50 and over
SOURCE: CENSUS OF AGRICULTURE, 1950
SMALL SCALE FARMS HAD GROSS FARM SALES OF $250-$1,199 IN 1949 WITH THE OPERATOR WORKING OFF THE FARM LESS THAN 100 DAYS AND FARM SALES EXCEEDING THE FAMILY INCOME FROM OTHER SOURCES
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